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Politics this week

Jul 29th 2004
From The Economist print edition

Genocide in Dafur

AP

Calls for the United Nations to impose sanctions on **Sudan** grew stronger, as government-backed Arab militias continued to commit atrocities against black Africans in the western province of Darfur. But the 22-country Arab League, of which Sudan is a member, said the Sudanese government should be given more time to rein in the militias. France urged the African Union to deal with the problem without military intervention by western countries, while the Sudanese government said it was prepared to use force if foreign troops entered the country.

See article

Some 1,000-odd delegates to an **Iraqi** national conference, known as the “big tent”, were asked to gather in Baghdad on July 31st to choose a 100-strong assembly to serve as a parliament in the run-up to a general election due in January. The insurgency showed little sign of abating: a suicide-bomb outside a police station in Baquba, north-east of Baghdad, killed 70 people. Meanwhile, the Saudi government discussed a plan to raise a Muslim force for peacekeeping in Iraq.

See article

Ahmed Qurei (also known as Abu Alaa), the prime minister of the Palestinian Authority (PA), which is supposed to govern the Israeli-occupied West Bank and Gaza strip, retracted his resignation after the PA's president, **Yasser Arafat**, said he had agreed to give Mr Qurei more control over the PA's security forces, including the police, and more powers to carry out reforms.

An **Iranian** intelligence agent was acquitted of last year's murder of Zahra Kazemi, a Canadian-Iranian journalist, after a trial in Tehran, Iran's capital, widely seen as a miscarriage of justice caused by political interference.

See article

American coronation

The Democratic Party, at its convention in Boston, officially nominated **John Kerry and John Edwards** as candidates for president and vice-president.

See article

Responding to the **September 11th commission report**, Congress said it would start hearings on July 30th on reforming America's creaking intelligence apparatus.

See article

California's governor, Arnold Schwarzenegger, finally reached a deal with the state's legislature on his $103 billion **budget**, almost a month into the start of the current fiscal year.

The Department of Justice reported that America's **prison population** in 2003 stood at almost 6.9m, or one adult in every 32. Of these, 2.1m were in prison or jail and more than 4m were on probation. A

further 775,000 were on parole.

Flood warning

Reuters

The United Nations gave warning of a humanitarian crisis in **Bangladesh**, where floods have already killed over 450 people and covered two-thirds of the country.

Médecins Sans Frontières, a leading humanitarian agency, has announced it is pulling out of **Afghanistan**. The agency, which has been operating there for 24 years without interruption, blames the deteriorating security situation and the weak government reaction to the killing of five of its staff in June.

After a ruling by its constitutional court, which prohibited prosecution under retrospective laws, **Indonesia** dropped charges connecting a radical cleric, Abu Bakar Basyir, to the 2002 Bali bomb. But they still plan to charge him with other offences.

See article

Reuters

About 450 **North Korean** asylum-seekers arrived in South Korea, via China and Vietnam. The North Koreans said the refugees had been “kidnapped”. About 5,000 North Koreans have defected to the South since the ending of the Korean war in 1953.

See article

Law and disorder

Faced with a crime wave that has seen some 2,000 murders so far this year, **Guatemala's** president, Óscar Berger, ordered 1,600 troops to patrol the streets of the capital, Guatemala City.

See article

Argentina's president, Néstor Kirchner, sacked his justice minister, Gustavo Beliz, after demonstrators stormed the Buenos Aires city council building. Mr Kirchner has been criticised for failing to deal with crime and disorder.

See article

A report by the IMF's Independent Evaluation Office criticised the Fund's conduct prior to **Argentina's** economic collapse of 2001. It said the Fund had supported the country's fixed exchange rate for too long, and was too lenient towards fiscal deficits.

The director of monetary policy at **Brazil's** central bank resigned, after a report that he was being investigated for tax evasion. The bank's governor, Henrique Meirelles, also faces a tax probe.

See article

In **Mexico**, a judge threw out charges filed by a special prosecutor against Luis Echeverría, the country's president in 1970-76, over the murder of at least 25 student protesters in 1971.

Changing tack

Leonid Kuchma, the president of **Ukraine**, appeared to reverse a foreign-policy doctrine adopted a month earlier, under which the country would have sought membership of the European Union and NATO as a long-term goal. His latest move was viewed as a possible bid for Russia's support in forthcoming presidential elections.

President Vladimir Putin of **Russia** said last month's attack by Chechen insurgents on Ingushetia, near Chechnya, underlined the need for tougher action by the security services. He added that “foreign agents” were trying to undermine the economic integration of Russia and Ukraine.

Tension mounted in **Moldova** after the breakaway Transdniestria region, dominated by Russian-speakers, was accused of closing schools that taught Romanian in Latin script. The European Union said it might impose sanctions on the pro-Russian statelet unless the row was resolved.

Prosecutors in the war-crimes trial of Slobodan Milosevic, the former president of **Yugoslavia**, said a defence lawyer with sweeping powers should be imposed on the defendant. They said that the accused had conducted his own defence “cleverly” and in a way that sought to “hijack” the trial.

Italy's parliament approved a pension reform after a series of complex political manoeuvres. It was seen as the biggest economic reform by the three-year-old government of Silvio Berlusconi.

See article

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Business this week

Jul 29th 2004
From The Economist print edition

Merger

Banco Santander Central Hispano, Spain's largest bank, announced plans to buy Abbey National, Britain's sixth-largest bank and its second-biggest mortgage lender, for £8.5 billion ($15.5 billion). If approved, the tie-up would be Europe's biggest cross-border banking merger. Investment bankers everywhere hope the deal will open the door to a wave of cross-border bank consolidation.

See article

Google, the world's biggest search engine, has set the internet world agog by estimating its value at a generous $36 billion, just $2 billion less than rival Yahoo! The firm expects to sell shares for between $108 and $135 during its initial public offering in the coming weeks. Despite its value, Google is not above technical glitches: it got hit by a computer virus, which overwhelmed some of its systems with bogus searches.

See article

Reports that bailiffs ordered **Yukos** to stop producing oil sent prices of crude to a new high of $43.05 a barrel. The Russian government later denied it had ordered any halt to production. Nevertheless, the Russian oil giant's woes continue to mount: a Moscow court issued an arrest warrant for Leonid Nevzlin, one of its largest shareholders. Mr Nevzlin, who is now in Israel, has been accused of being behind a murder in 2002. He denies the charges.

See article

Royal Dutch/Shell has agreed to pay about $150 million in fines to American and British regulators, following investigations into its downward revision of reserve estimates. Shell also announced profits of nearly $3.8 billion in the second quarter, up 16% from the same quarter last year.

Sony surprised investors with strong first-quarter profits. Yet, on closer inspection, the problem in its core electronics business remain severe. The company incurred an operating loss in its video-game business, which was hit by a 16% decline in sales.

Pharma fusion

Mylan Laboratories, America's second-biggest generic-drug maker, agreed to buy King Pharmaceuticals for $4 billion in stock. The move will give Mylan a foothold in branded drugs. Meanwhile **GlaxoSmithKline**, the world's second-biggest drug company, saw pre-tax second-quarter profits slip 17%.

See article

A family feud has bubbled over at **Molson**, a Canadian beer company. Molson and Coors, an American brewer, want to persuade investors to support their proposed merger, which would create a combined company with $6 billion in annual revenue. But Ian Molson, a former Molson deputy chairman, is trying to round up other financiers to launch a rival bid.

See article

American officials have charged four former executives of **Ahold**, a Dutch food retailer, with fraud. They are accused by the Department of Justice and the Securities and Exchange Commission of inflating profits in the company's US Foodservice unit by $800m over three years.

The **World Trade Organisation** has invited Libya to begin talks on entry. The discussions could take years, however. Meanwhile Iran's application to open WTO talks continues to be blocked by America.

See article

Americans bought more existing homes than ever before in June. According to the National Association of Realtors, sales rose 2.1% in June, as the prospect of rising mortgage rates spurred a rush to complete deals.

Nose dive

While it struggles to emerge from bankruptcy protection, **United Airlines** said it would stop contributing to its pension plans. The move has alarmed both United's employees and America's Pension Benefit Guaranty Corporation, a government-administered funding pool which could have to assume the obligations. It has voiced objections to United's move.

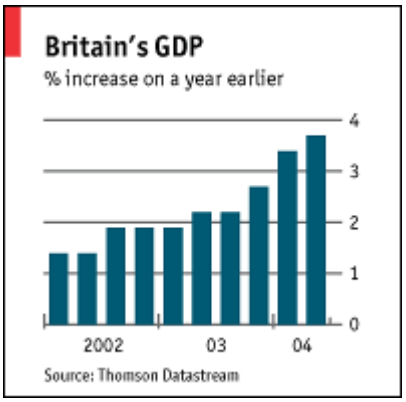
See article

Competition from discount airlines has caused more wobbles at US Airways, America's seventh-biggest carrier. Despite posting a second-quarter profit, the airline admitted that its results were “insufficient” and expects losses in the second half of the year.

Watch the skies on September 29th, when **SpaceShipOne** will launch the first of its two back-to-back manned flights into space. The craft's owners are hoping to claim the $10m Ansari X Prize, which is offered to the first team that succeeds in sending two manned flights safely into space (and bringing them back) within two weeks of each other.

Hot Britannia

Britain's economy grew by 3.7% in the year to the second quarter, its fastest pace since 2000. The strong numbers raised expectations that the Bank of England will increase interest rates during its meeting on August 5th from the current 4.5%. So far, however, consumers continue to run up debt, especially through mortgages on homes.



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Genocide in Darfur

Sudan can't wait

Jul 29th 2004
From The Economist print edition

The world must act now to stop the death toll in Darfur from exploding

Get article background

JOBARD-SIPA

HOW bad are things in Darfur? Ask the villagers who saw their neighbours trussed with chains and burned alive. Ask the 1.2m people who have been terrorised into fleeing the embers of their huts. Ask the aid workers who estimate that 1,000 people are dying each day in this remote region of western Sudan, mostly of hunger-related diseases, and that hundreds of thousands will die if not helped. Darfur is so horrifying that even the African Union (AU), an organisation that sees no evil during Zimbabwean elections, has protested.

Less forgiving organisations have protested more loudly. America's House of Representatives decided by 422 votes to nil last week to describe the Sudanese government's actions in Darfur as “genocide”, and to demand that something be done. This week, the UN Security Council is considering whether to impose sanctions. A British general has said that 5,000 British troops could be swiftly despatched to Darfur, if the order were given. In short, outsiders are starting to notice what the UN has for months been calling the world's worst humanitarian disaster (see article). But what can and should they do?

No easy assignment

Sudan's rulers are gambling that that they will do very little, and they may win their bet. The country's size and turbulence deters all but the most ardent interventionists. Sudan is home to two civil wars. The older of the two, pitting the Muslim Arab-dominated regime against black, non-Muslim rebels from the south, has claimed 2m lives in the past two decades, and spurred 4m people to abandon their homes. In the past year, however, the two sides have come close to a peace pact that would allow for power, and Sudan's oil wealth, to be shared among their respective leaders.

The prospect of such a carve-up helped to provoke a separate revolt in Darfur, which is almost uniformly Muslim but divided among a plethora of tribes. Some identify themselves as Arabs, while others consider themselves black Africans, though there has been enough intermarriage to make it sometimes hard to tell who is who. The Darfur rebels are mostly black Africans, who are angry after years of neglect, and who have decided that if the southerners can win a share of power by taking up arms, so can they.

The government frets that any concessions to the Darfur rebels will tempt other restless regions to rebel. So it is trying to crush them and punishing their ethnic kin. It has armed an Arab militia called the *janjaweed*, given it free rein to rape, rob and kill blacks, and helped it along by bombing black villages just before the camel-mounted raiders ride in. The government denies abetting attacks on civilians, but no one believes it. Besides the accumulated testimony of thousands of refugees, there is also a stack of documents, unearthed last week by Human Rights Watch, a lobbying group, that shows beyond reasonable doubt that the *janjaweed*'s ethnic cleansing has Khartoum's blessing.

So what can be done? There are pragmatic arguments for holding aloof. Sudan poses no immediate threat to the West, though it has succoured terrorists in the past. America and its allies are overstretched by commitments in Iraq and Afghanistan. In any case, could they really hope to pacify such a vast, violent and dysfunctional country? Surely, the most realistic approach would be to try to deliver food and

medical supplies to the needy, but to stay out of Sudan's internal politics?

There is no time for such caution, however. Aid cannot reach Darfur in adequate quantities unless the Sudanese government stops obstructing its delivery. People cannot go back and rebuild their villages unless they are reassured that the *janjaweed* will not burn them again. The Sudanese government says it is doing its best to curb *janjaweed* who step out of line, but it plainly is not. The murderous raids on civilians continue, backed up by government bombers. This regime will only stop killing if forced to. It was largely outside pressure that pushed it to talk peace with the south—and that peace process is at risk if the mayhem in Darfur continues.

There are several levers that could be used, but the great powers are not all pulling in the same direction. An arms embargo would be a start, but Russia, which is selling fighter jets to Khartoum, is likely to oppose it. The threat of an oil embargo would be more potent. Unless the Sudanese government makes a serious and immediate effort to rein in its killers, its main source of hard currency should be shut off. The French and Chinese governments may not like this idea, however, as their oil firms have interests in Sudan. As a last resort, outsiders should be prepared to use force. If certain members of the UN Security Council, mindful of their own ugly records in terrorising turbulent provinces, veto such a proposal, a coalition of the willing should go ahead regardless. There is a precedent: without approval from the Security Council, NATO intervened in Kosovo to curb ethnic cleansing.

Sometimes, force is the only answer

The trickiest obstacles to military intervention are neither legal nor moral, but practical. Darfur is a long way away, and as the rains grow heavier, its few roads are growing steadily less passable. Western troops would be welcomed by some of the people there, but would arouse violent passions among Sudanese Islamists, who are already warning of a “crusader” plot against Muslims. (Islamist protests against the Sudanese regime itself, a leading killer of Muslims, have been muted.)

The least bad approach would be to send an African force, under the auspices of the AU. Western powers could provide most of the funding (the AU has practically no money), logistics, electronic intelligence and possibly air cover. Willing African nations, whose soldiers would cause less affront than white ones, could provide the boots on the ground. Their mandate would have to be robust—they should be allowed to shoot to kill. But their mission should be narrowly defined: to protect refugees trying to return home, and to police a ceasefire while government and rebels negotiate a political solution. It might work. But the world has already dithered too long to save tens and possibly hundreds of thousands of lives.

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Global hunger

Empty bowls, heads and pockets

Jul 29th 2004
From The Economist print edition

Malnutrition makes the poor less productive. To beat poverty, hunger must first be defeated

WFP

PEOPLE in very poor countries are, on average, less intelligent than those in rich ones. Some readers may be shocked by this statement, so let's rephrase it. Some 800m people do not have enough to eat. Without proper nutrition, the human body cannot develop properly. That includes the brain. Those who are ill-fed tend to end up both physically shorter and less mentally agile than they otherwise would have been. Hunger also spurs millions of children to drop out of school in order to scavenge for food, and those who manage to attend school despite empty bellies find it excruciatingly hard to concentrate. Malnourishment is thus both a cause and a consequence of poverty (see article). The weak make unproductive manual labourers, and the global labour market is not exactly clamouring for dim or feeble workers.

Famines grab more headlines, but chronic malnourishment is a far more serious problem because it is so widespread. In some countries, nearly half of the children under five are underfed to the point of stunting. Given how unproductive this will make them, it is hard to imagine such countries defeating poverty unless they first defeat hunger.

There is no single way to do this, but there are several approaches that help, and can be used in parallel. Intervening before a child is born, and during the first two years of life is crucial. Deprivation during this period tends to cause permanent harm, but is often laughably cheap to prevent. Giving mothers antibiotics and anti-malarial bednets, for example, can fend off some of the diseases that make new-borns underweight.

After birth, the best thing is to encourage exclusive breastfeeding, especially if the local water supply is dirty. Handing out free food in schools is an effective way of persuading the hungriest children to show up. The lure of a bowl of maize porridge can cause enrolment in poor districts to vault overnight, and the extra calories make it easier to learn.

Micronutrients are also important. Some 2 billion people consume too little iodine, tiny doses of which are essential for a healthy brain. The solution—iodising salt—costs practically nothing. Fortifying flour with iron can prevent anaemia. Providing the poor with extra vitamin A (a lack of which can blind or even kill) is especially cost-effective. By one estimate, vitamin-A supplements could be given to pre-school children in need for as little as $1 per child, yielding vastly greater benefits in improved health and productivity.

In the long term, it would be better if everyone enjoyed such a varied diet that there was no need for pills or handouts. Since most poor people are farmers, that means that agricultural yields need to rise. Technology can help. The green revolution of the 1960s and 70s filled millions of Asian bellies, but has been much less successful in Africa, largely because the high-yield crops that fuelled it (mainly new strains of rice and wheat) are less widely planted there. The newer technology of genetic modification shows promise—scientists are starting to create crops that are more pest-resistant and nutritious. But it is early days, and scaremongering by western green activists has discouraged investment in such valuable research.

In the even longer term, secure property rights, accessible to all, would give farmers both the confidence and the collateral that would allow them to invest in their land. Very few hungry people currently have formal title to the soil they till. Giving them title deeds would be a smart move, and might make their

children smarter as well.

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Israel and the Palestinians

Ariel Sharon, man of peace?

Jul 29th 2004
From The Economist print edition

No progress across the line. But something good is stirring inside each camp

Reuters

TO THE casual observer, it is business as usual—that is to say, bloody stalemate—between the Israelis and Palestinians. What is more, with America in the throes of a presidential election, there seems little hope of serious outside diplomacy. But look closer. For the first time in several years, some momentous changes are under way on the ground. And, by the standards of the Middle East, the changes are good.

First, though, be clear about what is not happening. The two sides are not talking: Ariel Sharon says that agreements with Yasser Arafat are not worth the paper they are written on, and both President Bush and Candidate Kerry say they agree. The peace plan known as the "road map" is not being implemented: neither side has managed its first step, which is a ceasefire. The Palestinian *intifada* is not ending: the number of suicide bombings has dropped in recent months because of Israel's tough anti-terrorism methods, not because the Palestinians have stopped trying to blow Israelis up.

Bring on the civil wars

So where is the glimmer of light? A year ago in this space, *The Economist* argued that before the two sides could make peace, each would have to fight a (preferably non-lethal) civil war inside its own camp. A Palestinian leadership would have to take on and defeat the idea that the Islamic extremists of Hamas stand for, namely the extinction of the Jewish state. And an Israeli leadership would have to take on and defeat the idea that the Jewish settlers in the territories stand for—that a Jewish minority is entitled to rule these Palestinian areas forever. This is what may at last be starting to happen now.

Outside Israel, Mr Sharon is still seen as Israel's fiercest hawk. Inside, that has abruptly changed. The prime minister's decision to evacuate all the Jewish settlers from the Gaza strip by the end of next year is seen on the right as a religious betrayal and a cowardly surrender to Palestinian terrorism. This threatens to split not only Mr Sharon's ruling centre-right coalition but also his own Likud party. The entire settler movement—not only the 7,500 or so in Gaza—is up in arms. The government is preparing for violent resistance, and the head of the security services says that there is a serious risk that Mr Sharon might be assassinated.

From afar, this internal Israeli upheaval looks like an over-reaction. Many outsiders say—and they are probably right—that Mr Sharon is giving up Gaza merely to tighten his grip on the West Bank. But many Israelis say that quitting Gaza is the thin end of a wedge that will eventually lever Israel out of much or all of the West Bank as well. And, paradoxically, they are probably also right.

One reason the world has denounced the "security barrier" Israel is building in the West Bank is that this might harden into a political barrier. But if it did, more than 50,000 Israeli settlers would find themselves stranded on the barrier's Palestinian side. And if, as expected, the fence takes a 15% or so bite out of the West Bank, the Palestinians will end up with 85%. That is by no means acceptable to them. But for Israel it signals a massive change. Far from clinging doggedly to the whole of the West Bank and Gaza, like the Likud governments of the 1980s, Mr Sharon has given up on Gaza and is digging in to less than a fifth of the West Bank. Moreover, he proposes to do this unilaterally, under fire, and without any agreement with

the Palestinians. How much more might a future Israeli government yield in return for a comprehensive peace?

On the Palestinian side, the civil war between the rejectionists of Hamas and those who would accept a two-state solution has yet to start in earnest. But for Palestinians too, Mr Sharon's plan has begun to concentrate minds. When Israel leaves Gaza, will Mr Arafat's men or Hamas fill the void? Or might Hamas become a part of the Palestinian Authority? Either way, will Hamas put aside its arms or continue the fight?

In posing such questions, Palestinians have had to look squarely not only at the chaotic condition of Mr Arafat's administration—hence the resignation, since withdrawn, of his exasperated prime minister—but also at how far the *intifada* can carry them. Hamas says that Israel's exit from Gaza proves that violent resistance brings results. But most Palestinians have surely learned the hard way that they cannot erase Israel by force, just as this *intifada* seems at last to have taught Mr Sharon, the hard way, that he cannot erase the national dream of the Palestinians by force. That is no small change. In his internal war at least, a world that has grown used to demonising Mr Sharon should now be wishing for his success.

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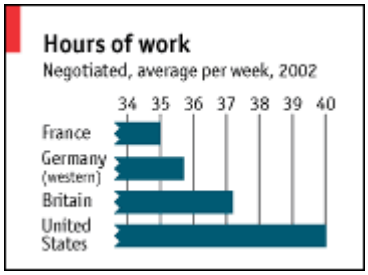
European labour reform

Keep up the momentum

Jul 29th 2004
From The Economist print edition

Government inaction is forcing firms in Germany and France to try to kill the 35-hour week



SIEMENS managed it; DaimlerChrysler got halfway there. In the past few weeks these two companies have forced the powerful IG Metall trade union to accept deals that erode, if not quite repeal, the principle of the 35-hour week. The applause has been huge, from both sides of the political spectrum, but the hard-core at IG Metall and its white-collar sister, Verdi, insist that they will not let the 35-hour week die.

Nor, it seems, will France's conservative government: it has so far only tinkered with the law introduced by the Socialists four years ago. In the autumn it may go further, but not far enough—for fear of riots. That is despite the admission, even among many Socialist Party officials, that putting the 35-hour week into law was a mistake. It is holding back economic growth and the competitiveness of French firms, scaring off foreign investors and killing job creation.

In Germany the 35-hour week, introduced in the decade before 1995, is one of many factors that have raised labour costs to levels that have stifled growth and dulled productivity. The reform programme launched by the government last year hardly touches labour agreements or the power of workers' representatives within a firm. However, the government is dismantling parts of the social safety net: from January 2005 it will be far less comfortable to be unemployed in Germany. As a result workers are somewhat keener to make compromises to save their jobs. That has strengthened the employers' hand. KarstadtQuelle, Thomas Cook, and MAN are among those now pressing for a 40-hour week. So is a French subsidiary of Robert Bosch. But to date that is the only company in France that has dared. After a few opening salvoes, other French firms have tiptoed back to the statutory 35 hours (see article).

Death warrant

Privately more and more companies in Germany are preparing deals with their workers that raise the bar to 40 hours or ignore a benchmark altogether. Siemens was only the most visible pioneer, but its action was hailed as a breakthrough on both sides of the Rhine. It persuaded its workers, and their union IG Metall, to accept a week of up to 40 hours, with no extra pay, to avoid the relocation of Siemens's mobile-phone production to Hungary. “Blackmail,” said a union spokesman, refusing to compare it with DaimlerChrysler's craftier compromise last week: longer hours for its research engineers (the boffins are glued to their computers anyway), while the production line in southern Germany will gradually forfeit wage increases and other perks. In return, Daimler has promised workers job security for eight years. The spectre at the feast, carefully not mentioned, was the 35-hour week. Every corporate manager in Europe knew the 35-hour week had been dealt a blow. IG Metall still swears it is intact.

Yet unless the beast is properly killed, every major labour negotiation will end in a Daimler-like compromise or worse. Daimler has the luxury of sitting on a profitable car business, even if it cannot match the margins of BMW and Porsche. But “people's car” producer Volkswagen does not: it employs more people to produce each car than any of the above. VW, owned 14% by the state of Lower Saxony, tends to indulge its workforce. It has won flexibility from its workers' representatives and IG Metall, while paying lip service to the 35-hour week. In September, VW starts a new round of negotiations with its main workforce. IG Metall is already signalling that the 35-hour week is non-negotiable.

The unions are ignoring the near-unanimous chorus of economists, industry analysts, and even some workers' representatives who argue that the 35-hour week is unsustainable, given the low-wage

competition from central Europe. The German worker may be super-reliable—an argument used by BMW when it decided to build a new factory in Saxony not the Czech Republic—but his job cannot survive competition from the East if his work day averages only seven hours.

Lengthening working hours is not the only answer. Politicians must do more than talk about revising Germany's job-protection laws, which scare foreign investors and deter even indigenous firms from creating new jobs. Output must be increased by innovation and productivity gains, not by chaining employees to their workbenches.

But the psychological breakthrough in the German labour market should not be underestimated. It promises to gain momentum, then to put pressure on France. A convincing death scene for the 35-hour week, written by governments, is now sorely needed.

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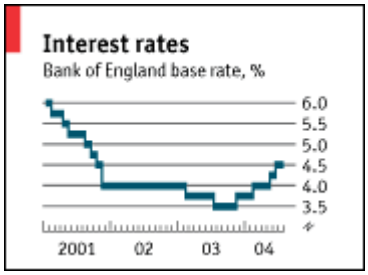
British interest rates

A test for the Bank of England

Jul 29th 2004
From The Economist print edition

The Old Lady has won plaudits since being granted independence. But for how much longer?



SINCE 1997, when the newly elected Labour government surprised everyone by making it independent, the Bank of England has enjoyed what its governor, Mervyn King, has described as a “golden period” in its history. During that time, it has presided over an impressively stable economy that has grown steadily even as others have faltered. It has got on with its job of steering monetary policy with quiet efficiency, common sense and admirable transparency. Moreover, it has so far managed to do its job without coming to blows with the chancellor of the exchequer, Gordon Brown. As Tony Blair would ruefully testify, that is in itself no mean feat.

Unfortunately, this happy state is now threatened. As the requirements of an overheating economy and a government likely to be seeking re-election in May next year diverge, the months ahead will be trickier for the Bank to negotiate than any since it gained its independence. It is not just the Bank's technical ability that will be tested, but its fortitude.

In the run-up to the last election, in 2001, there was no such problem: the economy was weakening, inflation was subdued and the government had only just begun to open up the spending taps. The Bank was happy to rally round with a series of entirely uncontentious interest-rate cuts. Things look very different today. The latest figures show that the economy, boosted by the immense quantities of cash the government has been throwing at public services, is currently growing at 3.7% a year, its fastest pace for nearly four years. Furthermore, it is quite likely that these numbers are understating the reality. As additional data become available, the growth figure could top 4%. At that sort of clip, it will not be long before the British economy is running at maximum capacity. Employers already report signs of labour-market tightening and business surveys suggest that increasing numbers of firms are expecting to push up prices more rapidly next year as dearer oil and commodity prices bite.

Yet despite the warning signals, the minutes of the July meeting of the Bank's monetary policy committee (MPC) sounded remarkably complacent. The MPC decided to hold off on an immediate interest-rate rise because of “tentative signs of a slowdown in the housing market”; the “possibility” that immigration was taking some of the pressure out of the labour market; and some indications of slowing consumer spending. However, the evidence for a cooling housing market is at best patchy, given the near-record level of property transactions in June; and consumers seem to have lost none of their appetite for debt. Although another quarter-point hike in interest rates may be announced next week, the fifth such increase since November, nothing the MPC has yet done has had any discernible dampening effect on the economy.

Don't follow Greenspan

Mr King has already irritated the chancellor by pointing out more than once that, in the absence of higher tax revenues, there is a danger of asking monetary policy to do too much. He is clearly concerned about the impact of over-aggressive rises in interest rates on heavily indebted households. Given that inflation is still low by historic standards, these are relatively uncharted waters. But by refusing either to restrain spending or to raise taxes during the run-up to an election, Mr Brown has backed the Bank into a corner. From the autumn onwards, any action the Bank takes will have political ramifications. If it has not by then succeeded in slowing the speeding economy, it will have to make an unpleasant choice between being the object of bitter controversy and losing at least some of its hard-won credibility. It will be damned if it raises rates and damned if it doesn't.

The alternative is for the Bank to be a bit less cautious now. Next week, rather than announce another quarter-point rise that few will notice, the MPC should go for a half-point increase with the threat of another one soon if that doesn't have the desired effect. The example of Alan Greenspan, the chairman of the Federal Reserve, should act as a warning. The Fed should have started raising rates earlier than it did; now, the November elections complicate its calculations. Mr Greenspan's reputation may yet suffer; Mr King's need not.

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Letters

Jul 29th 2004
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

War words

SIR – Given the British predilection for finding something praiseworthy even in a great mess, I wonder why you are so negative about George Bush and Tony Blair ("Sincere deceivers", July 17th). Unlike you, I was against the Iraq war from the start but even so let's look on the bright side. The war has almost certainly put paid to the notion of pre-emptive strikes (thereby saving us from perhaps even greater mishap in the near or far future); we have learned a lot about how intelligence is (not) gathered and how far we should be prepared to trust it; the Iraqis got rid of Saddam Hussein; and there is a decent chance that the Americans will get rid of Mr Bush.

Thomas Lauer
Basingstoke, Hampshire

SIR – Do Mr Bush and Mr Blair really deserve any mercy because they "sincerely" thought that Saddam was such a threat when it turns out they were just "guessing"? When is it acceptable to go to war on a guess, especially when you know "for a fact" that it is going to kill and maim thousands of people, destroy families, wreak havoc and confusion for years and unleash terrorism? In everyday life, when you do something reckless like that you get fired, or go to jail. Bill Clinton was nearly impeached, even though his lying and cheating never killed anybody and mostly managed to amuse half the world.

Patrick Pertegnazza
Paris

SIR – You are right to reassert your belief that removing Saddam from his destructive power was the right thing to do, even though the extent of that power was exaggerated. You are wrong, however, to blame Mr Blair for the emphasis he placed on weapons of mass destruction in making the case for war. That blame should rather attach to the United Nations, which will always place national sovereignty above local lives, allowing dictators to persecute and murder those within their borders. That was the real reason to get rid of Saddam—WMD was an additional and unfortunately necessary means to appease the UN. When will the UN ever learn the lessons of Rwanda and Srebrenica? When will it ever indict a country's leaders for crimes against humanity committed within their own borders?

Lawrence Marshall
Edinburgh

SIR – You are too kind to Mr Bush. There should be outrage at his mistaken beliefs, his senseless actions and his complete lack of contrition. In its essence, this war was waged on nothing more than a hunch and a grudge. The record shows that Mr Bush was eager to attack Iraq shortly after the terrorist attacks of September 11th and excuses were found to do so. By launching an unjust war, Mr Bush needs to be judged harshly, not only in the future (as I am sure historians will judge him) but also now. He does not merit re-election. The world does not deserve such a fate.

Glenn Hefner
Milan

SIR – You call Mr Bush and Mr Blair "sincere deceivers" because they were "not honest about how solid their knowledge really was." One cannot be sincere and at the same time dishonest about something not essentially trivial. The dishonesty caused the loss of thousands of lives without in any way assuaging the

terrorist threat, bringing peace to the Middle East, or securing the West's oil supplies.

Paolo Brera
Milan

Age concern

SIR – Your survey of Spain reports a claim that Morocco did not exist when Spain nabbed Ceuta and Melilla in the 15th century (June 26th). In fact, Morocco is one of the world's oldest nations, organised as a monarchy for over 2,000 years. When Spain invaded Sebta (Ceuta) and Melilla, Morocco was ruled by the Merenids dynasty, which was instrumental in a renaissance of the arts and architecture, most notably in Andalusia. The seeds of craftsmanship that gave monuments to Spain such as the Alcazar in Seville and the Alhambra in Granada were implanted thanks to the Moroccan nation-state that governed part of Spain, directly and indirectly, for over 800 years until 1492.

Mohammed Belmahi
Moroccan ambassador
London

Big guns

SIR – Your report on Japan's foreign policy is marred by a misleading chart on defence spending ("From pacifism to populism", July 10th). It shows Japan as fourth after America but this overlooks China, which spends about $80 billion a year, twice that of Japan. Moreover, in military budgets, what you buy is more important than what you spend. Japan does not get much for its yen because it spends 45% of its military budget on personnel, compared with 28% in America, Also, Japan's procurement costs are nearly twice as high as those in America because of a lack of economies of scale in arms production. Put another way, America spent $420 billion in 2003 to support 1.4m troops; India fielded a similar force for only $16 billion.

Richard Halloran
Honolulu

SIR – So, Japan plans to "lay low and influence people". I thought the Japanese had given up any idea of laying foreign nations low, and is peace-loving these days.

Hector Davie
Schliern, Switzerland

On the fence

SIR – You say of Israel's security wall that "The law cannot take the place of negotiation in resolving this conflict. But it does have a role, not least in helping to remedy the imbalance between the strong and weak" ("The wall and the law", July 17th). The reasoning is sound, yet you draw the wrong conclusion: sanction Israel. Israel has a population of 6.2m. Its neighbours have a combined population of 103.5m, excluding other regional powers such as Saudi Arabia, Iraq and Iran that do not border Israel. And all of these neighbours have attacked Israel within the past 50 years in an attempt to annihilate it. Who is the strong and who the weak? Who should the law protect?

Nathan Khakshouri
Los Angeles

SIR – The security fence is not a political border. It can be demolished or moved at any time. One has to remember that death and maiming, contrary to hardship and inconvenience, are irreversible. The fence, in the areas where it stands, has already saved the lives of many Israelis. Not a single suicide murderer was able to cross it. The fence should be completed as soon as possible. As long as the murderous war of terror continues, that fence should stay in place.

Jacob Amir
Jerusalem

Live another day

SIR – You claim that John Kerry could “put a hummingbird into a coma” (“Gee up!”, July 10th). In fact, hummingbirds go into a coma-like state at night in order to preserve enough energy to live to see another day. A coma, therefore, is necessary for their survival. Just as Mr Kerry's presidency is necessary if our nation is to survive to see a brighter tomorrow.

Andrew Paige
Cambridge, Massachusetts

ONLINE ARTICLES

The following correspondence refers to articles published only online

Israel, again

SIR - Consistent with your newspaper's practice of selective omission when it comes to Middle East reporting, the article “Lawless in Gaza” (Economist.com, July 21st) observes that “in 2000, frustration at the lack of progress (in the effort to create a Palestinian state) led Palestinian militants to launch an *intifada* (uprising).”

Surely, to make this statement without any mention of the negotiations at Camp David that year and the rejection by Yasser Arafat of then Israeli prime minister Ehud Barak's offer to return virtually all of the West Bank to Palestinian control is misleading. An uneducated reader would not be able to discern that the alleged “frustration” of the Palestinian militants which led them to launch the *intifada* was simply part of Mr Arafat's overall strategy to reject any compromise with Israel and to engage Israel in a bitter and brutal war of attrition through a campaign of terrorist attacks on Israeli civilians. Mr Arafat can view the cause of his present circumstances by looking in the mirror.

James Sanders
New York

Bare essentials

SIR - The dirty little secret is that not only do technology vendors have very little to sell to business, but what they do have to sell is, for the most part, now commoditised (Buttonwood, Economist.com, July 13th). When all is stripped away, Oracle makes filing cabinets, Cisco makes plumbing supplies, Dell makes television sets and Microsoft makes anything it can copy from someone else. Remember, these are the leaders in the sector.

I am sure that universal education, indoor plumbing and television broadcasting spurred massive demand for filing cabinets, plumbing supplies and TV sets. I wouldn't bet on that happening again.

Terence O'Connor

Perfect

SIR - You report that the iPod owes its success first to its enormous hard-disk capacity, and second to its “sleek design” (“The race to catch the iPod”, Economist.com, July 23rd). I contend that the reverse is true. Feature for feature, its competitors have always made the iPod seem to be terribly overpriced. But over time consumers have fallen in love with the iPod's elegance, refinement and simplicity. No similar product comes as close as the iPod does to achieving perfection in industrial design.

Wei-Yuen Tan
Vancouver

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The Democratic convention

Veteran appeal

Jul 29th 2004 | BOSTON
From The Economist print edition

The Democrats ran a tight ship this week. But have they set the right course and chosen the right captain?

Get article background

THE day before the Democratic Party convention opened in Boston, John Kerry made a flying visit to his home team's baseball stadium to throw the first pitch of a game. The catcher was a fatigue-clad National Guardsman back from Iraq and Afghanistan. The next day, 1,000 veterans crammed into a hotel to roar their support for the nominee. When he arrived formally to accept his party's presidential nomination, Mr Kerry crossed Boston Harbour in a boat filled with those who, 35 years before, had sailed the Mekong Delta with him in Swift patrol boats. And to introduce the speech itself (which took place after *The Economist* went to press), there were two veterans: Jim Rassman, a Green Beret whom Mr Kerry had pulled out of the river while under fire, and Max Cleland, a former senator who lost three limbs in combat.

The Democrats arrived in Boston with three aims: to tell Mr Kerry's story to American voters, nearly half of whom say they do not know enough to make up their minds about him; to allay residual fears that the party cannot be trusted on matters of war and peace; and to demonstrate that they want to get rid of George Bush without being consumed by fear and loathing of him. By and large, they achieved all three, thanks partly to those veterans.

Because presidential elections are decided less on policy than character, it was necessary in Boston to link some part of Mr Kerry's personal experience with what he stands for. Bill Clinton did this in 1992 when he tied his economic-policy proposals to his family's struggles to enter the middle class. Mr Kerry's experience in the Senate, his family wealth, and his reserved manner are all foreign to most Americans. But the defining experience of his life was Vietnam so the veterans not only remind fellow Americans that he shared the experience of combat, but that he is also capable of inspiring personal loyalty and trust. As one vet at the convention said, “if John Kerry came up to us today and said he had one more Swift boat mission and that we were going to hell, he would have a full crew.”

Being surrounded by gruff men with medals helps combat the idea that your party is soft on national security. More important, the Democrats hope that the combination of Mr Kerry's improved personal standing with the greater stress on war and peace should push their support from just below half of the electorate (their base) to a winning margin. This is because national security may well be the most important issue for the sliver of undecided voters, as George Bush showed in 2002 when he blitzed the

country on the eve of the Iraq war with patriotic appeals and romped home to a historically unprecedented mid-term victory.

To demonstrate their credentials as a centrist, trustworthy bunch, the Democrats jettisoned their usual free-wheeling ways (“I'm not a member of any organised political party, I'm a Democrat”, runs the old joke). The left was told to shut up. Howard Dean cooed, “I'll do whatever they ask.” Abortion barely got a look in. Instead, the party put on a unified, disciplined and largely successful display that might have been subtitled “It's the world, stupid”.

Jimmy Carter talked about restoring “judgment and maturity to our government”. Speaker after speaker was both pro-war and pro-multilateralism. They criticised the administration not for going to war in Iraq but for doing so in a way that imperilled American lives, harmed America's reputation and compromised the wider war on terrorism.

Even Al Gore was rueful rather than bitter, eschewing his recent attacks on the administration. Mr Clinton, who in 2000 had spent more time talking of his own achievements than Mr Gore's, declared himself to be “a footsoldier in the fight for our future”, and praised Mr Kerry by contrasting his service in Vietnam not only with Mr Bush's and Dick Cheney's combat-avoidance, but his own.

The choreography of handing over to new leadership was managed far better than in 2000. Democratic royalty dominated day one. Day two was given over to Obamarama: an impressive speech by one of the party's rising stars, Barack Obama. (“We have real enemies in the world. These enemies must be pursued and they must be defeated. John Kerry knows this”.) And the most-watched days three and four were left to John “Hope is on the way” Edwards and Mr Kerry, whom Mr Edwards spent most of his speech gushing over (see article).

In some ways, the stage management was reminiscent of the Republicans' performance at their 2000 convention, with an important exception. Whereas the centrism of that occasion was mostly theatre, the Democrats' policies seem closely aligned with their message. The party's platform began and ended with national security. Mr Kerry's foreign- and domestic-policy teams roamed the corridors insisting that they would use diplomatic and moral suasion not only to stay the course in Iraq but also to combat nuclear proliferation more vigorously than Mr Bush has done. They insisted that they would make halving the budget deficit such a high priority that they would scale back their domestic policy proposals—even the signature health-care plan—to achieve it.

But that points to one of three questions raised by the Boston convention. First, the mood-music and the policies may have changed, but has the party? Surveys by the *New York Times* showed that 86% of delegates (and 75% of rank-and-file members) think America should have stayed out of Iraq. The stress on foreign policy temporarily reduces Mr Kerry's problems on the left, because that wing of the party cares more about domestic matters and trade than national security. But were Mr Kerry to win, disputes over spending, health care and trade seem inevitable.

Next, how risky is the stress on national security? This is still the area where Mr Bush commands the greatest respect among voters. And while Mr Kerry can probably limit the president's advantages here, that may not be enough if it is true that national security is indeed decisive for undecided voters. Republicans are itching to claim that the Democratic challenger does not have any special credibility in matters of war because of something he did 35 years ago, however admirable. His recent decisions—on the Iraq war, on military spending—matter more, they argue, just as they did in 1992 (and 1996) when a draft-dodger defeated a war hero.

Lastly, how much can the focus on Mr Kerry, understandable though it is, really achieve? A good convention should create a favourable first impression for floating voters only now tuning in. But it will not in itself change opinion much. In the 1980 election, it was not until the last minute that doubts about Ronald Reagan (who was also running against a fairly unpopular incumbent) were resolved. For Mr Kerry, the hard salesmanship will need to continue for many weeks more.

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Michael Moore in Boston

The uncaged bear

Jul 29th 2004
From The Economist print edition

Don't tell him not to attack George Bush

EPA

Outing yet more villains

TRUST Michael Moore, perpetually dishevelled director of “Fahrenheit 9/11”, to tell the emperor he has no clothes. “You won't win this election by being weak-kneed and wimpy,” was his warning to John Kerry on the convention's second day. “The only way is to stand up for what you believe.” Any move to the right to get “a few extra votes” will just “encourage people to stay at home.” So much for staying on the Democratic message.

On the other hand, perhaps Mr Moore—whose presence at the convention came courtesy of ex-President Jimmy Carter rather than the party's present power-brokers—felt he had a licence to stray. His performance was arranged not by the convention committee but by the progressive Campaign for America's Future; and it took place not in the cavernous Fleet Centre but in a hotel situated safely across the Charles river. In other words, why not “bash Bush” in defiance of those ruffle-no-feathers orders from above? The audience, which spilled over into the street and had started forming five hours before the great man shambled in, loved every word.

Understandably so. Mr Moore knows how to work a crowd, especially one outraged by the war in Iraq. Criticism of President Bush and the neo-cons who have “hijacked the word ‘patriotism'” could be taken for granted; they are “hate-riots, not patriots”. But the “unstated villain” of “Fahrenheit 9/11” is “the national media: the film outs them as shills for the Bush administration; it outs them as cheerleaders for this war.” Even though “the great thing about this country is that you can ask any question you want and not be arrested,” too many journalists had been “hopping on a bandwagon afraid to lose their jobs.” They had been “not just embedded, but in bed with the wrong people.” Ouch.

But journalistic sensitivity aside, did Mr Moore stray too far for Mr Kerry's comfort? Hardly. For one thing, progressive Democrats need a little spice in their diet. Otherwise, they might defect to Ralph Nader (whose presidential campaign, Mr Moore says, is “so uncool”): “We need to give those who are thinking of voting for Ralph Nader a reason to vote for John Kerry.” Others, too, might appreciate the spice. After all, the Republicans “are better fighters than we are, they get up at six in the morning trying to figure out which minority to screw today. Our side—we never see six in the morning, unless we've been up all night.”

But Mr Moore's real favour for Mr Kerry was to give him an excuse for that famous vote for the Iraq war. He simply did what most Americans did: they “believed in the president, in the commander-in-chief.” It may have taken years for people to realise they had been wronged over Vietnam; “This time it only took months.”

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Massachusetts

A change of spots

Jul 29th 2004
From The Economist print edition

The state is not half as liberal as Republicans like to paint it

ON HIS first trip to China, James Baker, a former treasury secretary and former secretary of state (and a Texan), was asked whether he had been to a communist country before. No, he said, only Massachusetts.

This year, with the Bay State's junior senator nominated for president in his state capital, the temptation to mock is delicious. George Bush tells laughing audiences that two liberal senators make up a balanced ticket in Massachusetts. If the rest of the country were like the state, says Don Feder, a media consultant, Michael Moore would be head of the National Endowment for the Arts. To the rest of America, “Taxachusetts” produced Michael Dukakis, gay marriages and opposition to the death penalty. If John Kerry is from there, he must be out of the mainstream.

In terms of national politics, the stereotype is justified. Massachusetts is one of only four states where all the senators and congressmen are Democrats. (The others are Hawaii and both Dakotas.) It is one of nine not to have voted for a Republican presidential candidate since Ronald Reagan, whom it backed twice.

But local politics tells a different story. The past four governors have all been Republican; the current one is a Mormon. Since 1991, state government has been split: Democrats control the legislature and provide the speaker, but he is a conservative who got his job thanks to Republican support against a majority of his own party.

In contrast to the rest of the country, ticket-splitting is common in Massachusetts. So is bucking the party line. This year, some Republicans opposed a state constitutional amendment banning gay marriage; some Democrats supported it (it passed). Half of all voters are registered independents. And thanks to a referendum on property taxes in 1980, state and local taxation is well below the national average. (Massachusetts, which used to be second in terms of state and local taxes as a percentage of income, has now dropped to 36th). Mr Kerry does not represent a high-tax, one-party state.

Socially, Massachusetts does have some Chardonnay-quaffing, bicycle-paths-not-freeways attitudes. According to Robert David Sullivan of *CommonWealth* magazine, country-music stations do badly in the Bay State; so do the “Left Behind” novels popular among evangelicals. Instead, Massachusetts has twice the national average of symphony orchestras per head of population. But New England Puritanism, rather than liberalism, seems to influence social choices. Boston is famously discreet. It accepts gay marriages but not bathhouses. Casinos are banned. Sin taxes are high, and above-average numbers of policemen are on the streets.

In so far as Massachusetts is liberal, it displays features that other states might envy, not disdain. After suffering more than most from manufacturing's decline, the state has reinvented itself twice in 20 years, first with computers, now with financial services and high technology—all based on those bastions of liberalism, its universities. Since the most recent downturn, the economy has rebounded; unemployment is below average, while exports and house-price rises are above.

Possibly more important, argues Mr Sullivan, Massachusetts's liberalism—at least its best part—lies in open-mindedness, a willingness to consider new ways of doing things, rather than in reflexive support of the left. Biotechnology and gay marriage, he suggests, get support there because they may be the next big things. Perhaps Mr Kerry will be, too.

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The electoral week

On the trail

Jul 29th 2004
From The Economist print edition

Headline of the week

“Boston, we have a problem”.

New York Post cover of John Kerry in a NASA clean-air suit that made him look remarkably dorkish, July 27th

The love of a good woman

“You wouldn't want to have a beer with John, because John is not a beer-drinker. He doesn't drink much period, he's boring that way.”

Teresa Heinz Kerry fails to vote for her husband. Hardball, MSNBC, July 25th

Token unscripted moment

“You said something I didn't say, now shove it. ”

Teresa Heinz Kerry to a journalist from the Pittsburgh Tribune-Review, July 25th

The People's Republic of Arkansas

“The town of Hope, where I was born, has very good feng shui.”

First sentence of the pirated Mandarin edition of Bill Clinton's autobiography, “My Life”. New York Sun, July 22nd

Hair today, gone tomorrow

“Believe me, in a close race, good hair can win you a few points.”

Connie Sullivan, hairdresser to the convention, July 26th

Déjà vu

“Everybody talks about John Edwards's energy and intellect and charisma...You know, I kind of resent him.”

Bill Clinton, July 26th

Food fad of the week

“The New 2004 No C.A.R.B diet: No Cheney, No Ashcroft, No Rumsfeld, No Bush. And absolutely No

Rice.”

Badge for sale at the convention.

God bless the world wide web

“I wore a very conservative dress that did not withstand the impact of 3,500 flashbulbs...I'm told there are now entire web pages dedicated to my breasts. So that was cool.”

Alexandra Kerry on the dress she wore at the Cannes Film Festival. Washington Post, July 27th

The Last Supper

“We've come to Boston to take our seat at the table. We don't want no crumbs. We're gonna slice this bread all together.”

Al Sharpton re-emerges. National Journal's Convention Alert, July 26th

Dating Dem-style

“Some of my girlfriends and I would go to bars and flirt with the guys, and then we would work Edwards into the conversation. We called ourselves ‘Johnny's girls'.”

C. J. Fregozo, founder of DemDates.com, a new online dating service. National Journal Convention Daily, July 25th

Victim of circumstance

“I know about the bad economy. I was the first one laid off. And while it's true that there are new jobs being created, they're just not as good as the jobs people have lost...”

Al Gore in poignant mood, July 26th

Welcome to Boston

“Welcome to the freedom cage. Freedom never looked so good. And should you be able to climb out of the chicken wire, there's some fine men in uniform with guns.”

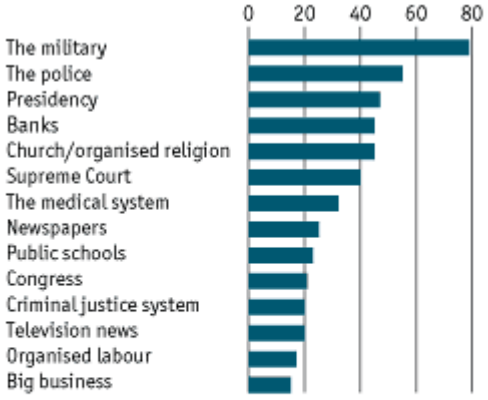
Randall Terry of Operation Rescue, an anti-abortion group, on the designated protest area. New York Times, July 27th

The Economist/YouGov poll

How well do you think each of the following characteristics applies to Dick Cheney and John Edwards? %*

	Cheney	Edwards
Trustworthy	48	54
Intelligent	73	73
Cares about people like me	40	55
Tough	63	48
Knowledgeable	68	64
Moral	49	55
Flip-flops on the issues	29	34
A strong leader	51	49
Is too close to special interests	56	38

How much confidence do you have in...?, %†



*People answering "extremely/very/moderately well"
†People answering "A great deal" or "Quite a lot"

Source: YouGov. Poll of 1,642 registered voters conducted July 26th–28th

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The September 11th report

No blame, no pain

Jul 29th 2004
From The Economist print edition

Will the commission's proposals really be taken seriously?

AS THE report of the September 11th commission at last saw the light of day, politicians scrambled to embrace it. The White House has hinted it will enact some proposals soon, by executive order. John Kerry has tacked on to his stump speech a plea for the commission to stay on for another 18 months to monitor reform. Members of the Senate, after a shameful spell of silence, have now interrupted their summer holiday to hold hearings on the commission's findings. They aim to pass laws on some proposals, perhaps even before the election.

No lawmaker wants to seem slow to make America safer. Democrats in Congress undoubtedly recall the 2002 mid-term elections, when voters punished them for dragging their feet over national security. President George Bush will not want to be seen twiddling his thumbs either, not least because commission members have promised to rove the country pushing their reforms.

The commission's work is all the easier to embrace because it largely avoids apportioning blame. Although the report describes in detail missed opportunities to stop the September 11th attacks, it faults bureaucratic bungling rather than misguided leadership. Despite many embarrassing revelations, such as the decision of the former CIA director, George Tenet, to scrap a much-rehearsed plot to capture Osama bin Laden in 1998, the commission does not assign blame to a particular administration. Even on the two topics with most electoral heft—the Iraq war and the Bush administration's cosiness with the Saudis—the report comes out even, finding that neither the Iraqi nor the Saudi government had any official link with al-Qaeda. As a result of this impartiality, or timidity as it may appear to some, the commission has achieved what few anticipated it would: a serious focus on its proposals.

Most controversial is the proposed creation of a director of national intelligence, with control over 15 spy agencies and a brief to act as the president's chief intelligence adviser. The change is meant to relieve the CIA director of these two roles, giving him time to revamp his own tottering operation, and to give one person true control over strategy: the CIA director, though nominally charged with intelligence oversight, cannot hire and fire agency heads and has no authority over their budgets. Less controversial, but still treading on many toes, is a proposed new national counter-terrorism centre that would concentrate all the analysts and spies working on terrorism in one place. Currently, the Terrorism Threat Integration Centre, created in 2003, houses analysts from various agencies but does not itself collect intelligence; the proposed centre would combine these two functions.

The September 11th attacks were made all the easier, says the commission, because not enough information was shared among the agencies. It cites the well-known example, in the summer of 2001, of the FBI agent who noted the potential terrorist interest in flying lessons in the Phoenix area but who could hardly attract attention to the threat even though “the system was blinking red”. The hope is that, next time, the new reforms will help to “connect the dots”.

Another big proposal is to reduce redundant oversight of intelligence in Congress. At present, the Department of Homeland Security has to report to no fewer than 88 committees. One idea is a joint committee of House and Senate members to deal with intelligence; another is to consolidate all intelligence oversight into one intelligence committee in each chamber that would both approve funding and dole out the money.

Do these reforms stand much chance of being adopted? Many of the proposals are not new. Calls to decouple the CIA director from his role as head of the intelligence community began decades ago, and the urgings of a commission will probably make little difference. The creation of an intelligence tsar would relegate the CIA director to an ordinary agency head; the secretary of defence would have to give up

control of 80% of the intelligence budget. Not surprisingly, both have spoken out against the idea. The lofty goal of streamlining Congress is probably moot: lawmakers are unlikely to hand over prized turf to a select few.

But, most important, the president himself has shown no sign he is ready radically to overhaul the way America gleans intelligence. The White House has sat on a report on intelligence reform by Brent Scowcroft, chairman of the president's Foreign Intelligence Advisory Board, since 2002. While thanking and praising the commission for its work, the White House has given warning that such reforms will take time. An awful lot of egos stand in the way of making America safer.

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Army life

Force enhancement

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From The Economist print edition

America's soldiers are being made even bustier and prettier

ALTHOUGH the bloodshed in Iraq is unabated, army recruiters are having little difficulty persuading Americans to sign up for Uncle Sam. Martial zeal, it seems, remains strong in American culture, and a subsidised college education a powerful draw. Lest this should ever change, however, recruiters could offer an unlikelier inducement: free plastic surgery.

According to army figures dug up by the *New Yorker*, over the past three-and-a-half years military surgeons have performed 556 breast enhancements and 1,592 liposuction procedures on soldiers and their close relatives. Soldiers have to pay only the cost of their breast or, potentially, buttock implants; family members must cover other expenses. Face-lifts and nose jobs are also available. Alas, an army spokesman could not say whether penis enlargements may be had at federal expense.

The Defence Department insists that such operations offer excellent opportunities for its doctors to practise the skills they need to treat war wounds and burns. They also keep surgeons up to speed with the latest techniques being used on civvy street, which makes them happy. They make soldiers happy, too. “Taking care of the physical and emotional needs of soldiers and their families is critical,” explained another army spokesman. Moreover, elective surgery was the lowest priority, and therefore no great burden to taxpayers, she said, adding that army plastic surgeons each perform a mere five boob jobs a year.

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Lexington

Is the Wunderkind so wonderful?

Jul 29th 2004
From The Economist print edition

John Edwards may be the toast of Boston. But he has weaknesses nonetheless

IT WAS not hard to find Democrats in Boston this week who were willing to admit, strictly in private of course, to doubts about John Kerry. The great fear hanging over an otherwise jubilant convention was that the Party of the People had managed to nominate the least people-friendly New Englander since Michael Dukakis. (Mr Dukakis, incidentally, was strangely not invited to take the microphone at the Fleet Centre, despite living nearby, and despite having once been Mr Kerry's boss.)

By contrast, everybody seemed to be cock-a-hoop about John Edwards. After his speech on Wednesday evening, the Democrats were more insistent than ever that Mr Edwards is not just the perfect complement to Mr Kerry but the ideal antidote to Dick Cheney. Mr Edwards sang his boss's praises, from his service in Vietnam to his lifetime of public service. He also displayed his trademark ability to address the economic woes of Middle America while preserving an uplifting, optimistic tone.

Mr Edwards brings strikingly different qualities to the Democratic ticket from his boss—natural talent rather than storied experience and southern charm rather than Yankee gravitas—and, as an added bonus, he makes Mr Kerry lighten up in his company. Mr Edwards is also matched against a vice-president who is widely reviled as a symbol of everything distasteful about this administration, from blinkered ideology to crony capitalism.

But is the *Wunderkind* really so wonderful? Though a love-struck media may now want to strew more rose petals in his path, he has two big vulnerabilities that the Republicans will be sure to exploit. The first has to do with things he has done; the second, more serious, has to do with the things he hasn't.

Mr Edwards has had two successful but controversial careers: first as trial lawyer and then as an economic populist. Republican attempts to paint him as an ambulance-chaser may be a little crude: Mr Edwards's clients included plenty of children who were horrifically harmed by corporate negligence. But they are right to say the country's tort litigation system is a monster. The litigation industry consumes some $230 billion a year—or $3,000 for every family of four—in higher prices and insurance premiums. The industry also adds to the soaring costs of health care because of “defensive” tests and procedures. (Mr Edwards made some of his fortune suing obstetricians.)

Mr Edwards's presence on the ticket gives the Republicans a chance to make tort reform a highlight of

their campaign, which business will appreciate. Their more ambitious hope is that they can turn Mr Edwards's economic populism into a potential vulnerability. Yet here his attackers are on shakier ground.

The news on the economic front is much more mixed than the Republicans had hoped, with the pace of job growth slowing for three consecutive months. Besides, the Democrats have cleverly shifted the focus from unemployment to the “middle-class squeeze”, by which they mean the feeling that ordinary families are struggling to meet escalating health and education costs. Mr Edwards's idea of the two Americas may be simplistic, but it captures a fear that haunts many Americans: that a country founded on equality of opportunity is calcifying into a European-style class society.

A young man in a hurry

The bigger problem for Mr Edwards is the list of things he hasn't done. First, his public service adds up to only six years in the Senate; there, his record for attending roll calls (partly spoiled by campaigning) has been poor, and he has no serious legislation to his name.

The impression of a young man in a hurry is compounded by the fact he got the presidential bug so early. Mr Edwards was considered for the vice-presidential slot in 2000, and he seems to have abandoned North Carolina (which he risked losing in 2004) in favour of the most powerful office in the world. Star quality is one reason for this; but there are also signs of an overweening ambition that has put self-promotion above the patient accumulation of experience.

This lack of experience is particularly striking in foreign affairs, where his resumé is as short as Mr Cheney's is long. On Wednesday Mr Edwards reminded his audience that he is a member of the Senate Intelligence Committee. He also had a simple message for terrorists: “You cannot run. You cannot hide. And we will destroy you.” But for all that he is still vulnerable to John McCain's jibe that “Vice-President Cheney is not just another pretty face,” a jibe made all the more stinging because Mr McCain was Mr Kerry's first choice for running-mate.

Democrats rightly point out that Mr Cheney's credibility is tainted by Iraq and that Mr Bush was no foreign-policy heavyweight when he ran for office in 2000. But the post-September 11th world puts a far higher premium on foreign-policy experience. The danger for Mr Edwards is that he will come across during the vice-presidential debate as a lightweight—far more winsome than Mr Cheney, to be sure, but hardly the sort of man to prosecute the war on terrorism. “Dick Cheney can be president” was Mr Bush's brusque but pointed reply when asked his opinion of Mr Edwards.

In the end, Mr Edwards's value to the campaign depends on where the battle is being fought. If the first American presidential election after September 11th hinges on the middle-class squeeze, then Mr Edwards will undoubtedly add something to the Democratic ticket; if it hinges on the war on terrorism, then the Republicans have a good chance of redefining him as a pretty-boy lawyer ill-equipped to defend the country. For all the doubts about their presidential candidate's ability to connect and for all the audible sighs in the Fleet Centre on Wednesday night, the Democrats are lucky that they have the dour Mr Kerry, rather than the charming Mr Edwards, at the top of the ticket.

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Guatemala

Not enough police; but who wants the army back in charge again?

Jul 29th 2004 | GUATEMALA CITY
From The Economist print edition

AP

How violent crime threatens to blow away a struggling new democracy

Get article background

FEW countries can ever have been in such urgent need of a halfway decent government as Guatemala was when Óscar Berger won last year's presidential election. Boasting Central America's largest economy, Guatemala lags its smaller neighbours in most other respects. Its civil war between military dictators and left-wing guerrillas was the longest and bloodiest in the isthmus, ending only in 1996. Peace brought little progress, especially for the six out of ten Guatemalans who are poor, most of them Mayan Indians.

Instead, under Alfonso Portillo, Mr Berger's predecessor, power seemed to be passing to a shadowy nexus of army officers and drug traffickers. After leaving office, losing his immunity from prosecution, Mr Portillo fled. Now believed to be in Mexico, he is wanted in both the United States and Guatemala on charges of money-laundering and embezzlement.

With such an inheritance, Mr Berger's task was never going to be easy. A businessman and former mayor of Guatemala City, he leads a centre-right party. But he has formed a fairly broad coalition government. For example, he appointed a leading left-wing activist, Frank La Rue, as human-rights commissioner. After seven months in office, Mr Berger has chalked up some real achievements. But on crime and security, where he promised most, he has struggled. Last week, he sacked his interior minister and police chief. This week, after extra police brought in from rural areas staged a brief (and drunken) protest, Mr Berger ordered 1,600 soldiers to patrol the streets of the capital.

That smacked of desperation. On taking office, the president moved decisively to remove the armed forces from politics. He has slashed the army from about 27,000 troops to 15,500. The presidential security division, an elite unit notorious for its involvement in murders and other abuses, has been disbanded and wartime “internal security zones” scrapped.

These changes had remained pending since the 1996 peace agreement with the guerrillas. Tom Koenigs, who heads the United Nations mission monitoring that accord, says that putting them into practice amounts to a big achievement. “All previous governments have been coalitions between politicians and the army, but this is the first fully civilian one,” he says. In another sign of a desire to break with the past, General Efraín Ríos Montt, an infamous former dictator and defeated candidate in last year's election, has been placed under house arrest for inciting riots.

Controlling the army is essential if Guatemala is to start consolidating democracy. But it will amount to little if Mr Berger fails to defeat the epidemic of violent crime that has seen almost 2,000 murders so far this year in a country of only 11.5m people. This month alone, a busload of young Americans, on their way to help build houses for the poor in El Salvador and Honduras, were held up by gunmen on a main road and stripped of all their belongings; the president of the state electricity holding company was found shot dead; and gunmen killed a heavily pregnant 15-year old in Guatemala City.

Most analysts blame organised gangs for the upsurge in violence. These include drug traffickers, but also the American-style teenage street gangs known as *maras*. The police force, with just 22,000 members, is too small, under-equipped and often corrupt to confront such foes with success. The police budget was cut by Mr Portillo. On the best estimates, only about one crime in ten is ever solved.

Groups of angry citizens, fed up with the government's apparent impotence in the face of crime, are planning a protest march next month. That mimics similar popular protests in Argentina and Mexico this year. But like many other problems in Guatemala, there is no obvious way to put things right fast. Part of the solution involves tackling another longstanding failure: the government's inability to raise sufficient taxes to pay for the rudiments of a modern state.

Mr Berger has persuaded Congress to approve a bundle of tax measures designed to raise the tax take to 11% of GDP, up from 10% in 2003. The cuts in the army should free up some extra funds for the police and social programmes. But not much. Already, Mr Berger's support in a fractionalised Congress is disintegrating. Unless he moves swiftly to reform and strengthen the police, his government risks becoming dependent on the army to fight the crime wave, undoing much of the progress of the past few months.

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Cuba

Tourists: by the left, march

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Military command and control for the hotel industry

IT IS no exaggeration to say that for the past decade, foreign tourists have kept Cuba and its Communist revolution alive. Over that period, the industry has averaged double-digit growth and a healthy 25% profit on sales, coming to the island's rescue when the collapse of the Soviet Union removed its previous economic lifeline. In 2003, the tourist industry had sales of $2.1 billion and provided almost half of Cuba's total hard-currency revenues. So far this year, arrivals are up 12%.

But Cuba's president, Fidel Castro, has never particularly liked his dependence on tourism (not sex tourism, he insisted in his speech on the anniversary of the revolution this week). Earlier this year, in a video circulated among Communist Party members, Raúl Castro, the president's brother and defence minister, likened the industry to “a tree born twisted that must be uprooted and planted anew.” Pruning has been brutal: out have gone the tourism minister, three deputy ministers, and dozens of other top managers and officials. The new tree, it turns out, is a military one: the ministry is now full of staff from Gaviota, a hotel company set up by the armed forces in the early 1990s.

Tourism was once the standard bearer of a move towards a less monolithic and more decentralised economy in Cuba. Gaviota was one of five different state-owned hotel companies. Several foreign hotel firms, notably Spain's Sol Meliá, invested in the island under joint ventures. Now, a dozen government committees are studying how to recentralise tourism. Horizontes, another of the five companies, with 10,000 of the island's 42,000 hotel rooms, was recently merged into the other four, whose subsidiaries are in turn being transferred to the ministry.

This recentralisation is part of a general retreat from a timid economic opening. Last year, state companies and joint ventures were stripped of the quasi-independence under which they could compete, make day-to-day decisions, seek credit, and engage in foreign trade. Now, they must use local scrip in lieu of dollars and the Central Bank must approve any sizeable hard-currency transactions. The Finance and Prices Ministry is once more setting prices for internal trade. The Foreign Trade Ministry has reasserted control over exports and imports. The Economy and Planning Ministry has clawed back from company managers decisions over budgets and perks. So far foreign investment has not been directly affected by the changes. But foreign businessmen and their Cuban counterparts say investment is slowing, as decisions wend their way through new layers of bureaucracy.

The military takeover of tourism is part of a broader campaign against corruption. In his speech, Raúl Castro claimed that “lack of respect” for the government and the Communist Party permeates the industry. Even though most tourism jobs are held by party members, money that should flow into state coffers was winding up in individuals' pockets, he said.

The official directive launching the anti-corruption campaign claimed that the market-oriented reforms of the 1990s had created widespread tolerance for petty theft, indiscipline and corruption. Party members were in danger of adopting not just capitalist technique but also capitalist thinking, it said. Corruption, or failing to stop it, may now cost those responsible their jobs and party membership.

One interpretation of all this is that in taking control of the country's main industry, Raúl Castro, who is aged 73, is consolidating his position as his elder brother's chosen successor at the expense of Carlos Lage, who is the executive secretary of the council of ministers and number three in the pecking order. Mr Lage presided over the economic reforms of the 1990s.

Another interpretation of the tourism shake-up is that the reforms were having the predictable effect of loosening party control over life in Cuba. That is something Fidel Castro was only prepared to

contemplate out of desperation in the wake of the Soviet collapse. Now, he is using George Bush's hostility to his regime as a pretext to extinguish anything that smacks of capitalist penetration of his revolution. Whether the military takeover will end up turning a holiday in Cuba into a more regimented affair remains to be seen.

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Talking peace in Colombia

Give up and you can stay home

Jul 29th 2004 | BOGOTá
From The Economist print edition

A looming row over extradition

Get article background

AFP

From paramilitary to peacenik?

IT IS fast becoming a tradition: the leaders of Colombia's private armies have only to mumble that they favour peace, and they are promptly whisked off to address the country's Congress. Last month, that honour was awarded to Francisco Galán, a jailed leader of the ELN, a small leftist guerrilla group which has promised—but not yet started—peace talks. On July 28th it was the turn of three warlords from a much larger force of right-wing paramilitary vigilantes, the United Self-Defence Forces of Colombia (AUC). The government began talks with the AUC last year. But these have yet to produce any agreement.

Salvatore Mancuso, the AUC's leader, used his televised public platform to reiterate his willingness to demobilise and to help to eradicate the drug trade—provided AUC leaders do not have to serve time in jail, particularly not in America.

President Álvaro Uribe's government is keen to strike a deal. Under pressure not to grant immunity for their crimes, it has proposed that paramilitary leaders should be “confined” for five to ten years, not necessarily in jail. Doubters point out that speeches to Congress would be more useful if they were a reward for demobilisation and acceptance that the paramilitary leaders should face punishment. Instead, there is plenty of evidence that the AUC continues to commit crimes: last week alone, the army rescued 23 peasants from its captivity, and seized 4.5 tonnes of cocaine from an AUC-run laboratory.

It is the paramilitaries' ties to drugs that may pose the biggest obstacle to a deal. Mr Uribe has been an enthusiastic supporter of extraditing drug traffickers to the United States. In less than two years in office, he has sent 170 Colombians to face the American courts—more than all previous presidents combined. But there are signs that the government might be prepared to agree not to extradite AUC leaders in return for a peace deal.

The United States, which provides Colombia with some $500m a year in military aid, has other ideas. Five AUC leaders, including Mr Mancuso, are wanted by American prosecutors on drugs charges; in two cases, the indictments were issued only last week. The American ambassador in Bogotá, William Wood, has insisted that his government will not drop extradition requests against AUC “narco-terrorists”.

But the United States risks overplaying its hand on extradition. A recent case in which American prosecutors sought to extradite three legitimate Colombian business people for unlicensed foreign currency transactions caused widespread resentment—not least because they had committed no crime in Colombia.

Hitherto, extradition has been a powerful weapon in Colombia's fight against violent drug gangs. Now it may be about to become an obstacle to Mr Uribe's peace plans. Any deal struck with the AUC is likely to be offered, too, to their main opponents, the FARC guerrillas. In the years ahead, Colombia's Congress will no doubt see a few more warlords—and much debate about extradition.

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Argentina

Disorderly conduct

Jul 29th 2004 | BUENOS AIRES
From The Economist print edition

Disarray over law and order

Get article background

THE past fortnight has not been a good one for Argentina's president, Néstor Kirchner. On July 16th, several hundred demonstrators stormed the Buenos Aires city council building, smashing doors and windows and causing more than $30,000 in damage. They went unmolested by the police for more than three hours. As a result, Mr Kirchner sacked the head of the federal police force and a deputy minister at the justice ministry, which is responsible for security. That provoked a furious riposte from the justice minister, Gustavo Beliz. He in turn was sacked. He left with a fusillade against his former boss. “The ill-treatment that [Mr Kirchner] subjects you to is terrible. He humiliates you, he humiliates everyone,” said the former minister. He complained that the president took up to 15 days to return his phone calls.

Crime, fear of crime and the government's reluctance to crack down on disorderly protests, mainly by small groups of the unemployed, are taking their toll on the president's standing. Thanks mainly to the strength of Argentina's economic recovery from its 2001-02 collapse, Mr Kirchner remains very popular. But less so than he was: the latest polls, taken before Mr Beliz's departure, gave the president an approval rating of around 60%, down from 80% or more in March.

After his sacking, Mr Beliz claimed that the government's security policy was being subverted by the state intelligence agency, headed by allies of the president. Though the opposition has seized on these claims, most Argentines are less inclined to blame the president than his subordinates for security failures. Since taking office in May last year, Mr Kirchner has fired dozens of generals and police officers. He has also announced ambitious plans for police reform—though it will take years of co-ordinated effort by many state bodies to build the professional police force that Argentina urgently needs.

The departure of Mr Beliz, a conservative, narrows the political base of a government mainly drawn from the president's home province in Patagonia, leftish independents and some traditional Peronists. But Mr Beliz's replacement, Horacio Rosatti, is a well-connected academic lawyer; the new deputy minister for security is an ally of Eduardo Duhalde, Argentina's former president. There are also signs that the police will take greater steps to prevent occupations of buildings by *piqueteros,* as the unemployed protesters are known.

Mr Kirchner remains far more popular than any of his rivals, including Mr Duhalde. But he has made many enemies—and several policy mistakes. Unless the government starts to get a more effective grip on law and order, Argentines may start to lay the blame at the top. If so, the president may suddenly find that many of his friends turn out to have been of the fair-weather variety.

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Brazil's central bank

Scandal—and success

Jul 29th 2004 | SÃO PAULO
From The Economist print edition

Small rows and better economic numbers

Get article background

CENTRAL bankers should be immune to anything so interesting as tragic irony. Not in Brazil. On July 28th Luiz Candiota resigned as the central bank's director of monetary policy following allegations in the press of tax evasion. Hence the tragedy. The irony is that, after 19 months of bashing from politicians, entrepreneurs and the press, the central bank can point to the clearest signs of economic recovery since the current team took over in early 2003.

The resignation of Mr Candiota, who denies any wrongdoing, comes in a season of scandal. The Brazilian press has feasted on revelations that Kroll, an international security firm, snooped on people who are now top public officials while it was investigating Telecom Italia. Now comes news that Brazil's federal prosecutor has accused four ex-presidents of BNDES, a giant state owned bank, of “dishonesty” in guaranteeing loans to finance energy privatisation.

Financial markets would worry if there turns out to be any substance to allegations that Mr Candiota's boss, the central bank president Henrique Meirelles, also dodged taxes. The central bank points out that Mr Meirelles was living abroad at the time; he has no plans to quit. Prosecutors are investigating but have filed no charges.

If not for this, the central bank would be celebrating an economy that, after shrinking in 2003, looks set to grow around 3.5% this year. Inflation, which was heading towards 20%, has been brought down to 7% thanks largely to tough monetary policy. Best of all, recovery is starting to be felt. The unemployment rate in six big cities fell to 11.7% in June from 13.1% in April and average wages rose 1.8% between May and June.

Things are going so well that Antonio Palocci, the finance minister, recently resurrected the unpopular idea of giving the central bank formal independence. In practice, the central bank is free to pursue an inflation-rate goal set by the government. If that autonomy were anchored in law, the central bank might be able to hit that target with lower interest rates. Some analysts attribute the circulation of embarrassing stories about central bankers' taxes to foes of the institution's independence.

The central bank's critics complain that, at 16%, its basic interest rate is still far too high for Brazil's indebted economy. Mr Candiota's successor, Rodrigo Azevedo, who was chief economist in Brazil of CSFB, an investment bank, is unlikely to agree. His bank predicted last week that the basic rate would remain unchanged for the rest of 2004.

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Free trade in South-East Asia

More effort needed

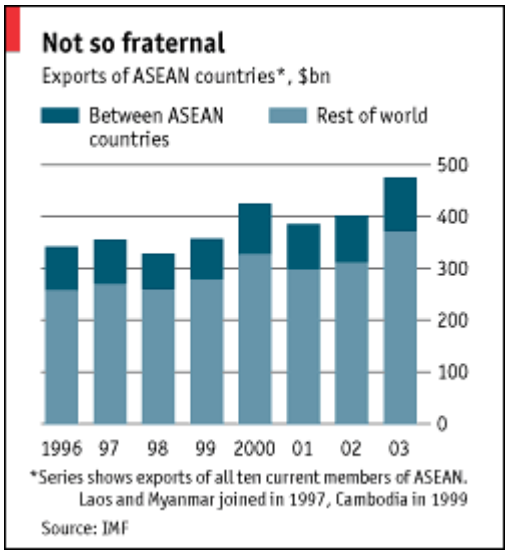
Jul 29th 2004 | BANGKOK
From The Economist print edition

Alamy

Nominally a free-trade area for more than a year, there is not much sign of economic integration in ASEAN

ON THE face of things, the ASEAN Free-Trade Area (AFTA), which covers the ten countries of the Association of South-East Asian Nations, is going from strength to strength. From the beginning of last year, the six long-standing members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) reduced their tariffs on one another's goods to a maximum of 5%. They now plan to deepen AFTA by integrating the four newer members (Cambodia, Laos, Myanmar and Vietnam), tackling non-tariff barriers and expanding its scope to new areas such as investment. They also hope to conclude collective free-trade agreements with China, India and Japan. As proof of the group's success, the ASEAN secretariat, in Jakarta, says trade among its members roughly doubled in the decade from 1993.

But there is less to this rosy picture than meets the eye. For starters, ASEAN's trade with the rest of the world has grown just as fast as trade among its members (see chart). Trade with China has actually grown much faster and more consistently. Growth in trade within ASEAN, by contrast, has been patchy, with spurts in some years and declines in others.



In other words, AFTA is not quite what it is cracked up to be. Several of its members refused to lower tariffs on certain critical products to meet last year's deadline. Malaysia, for example, still insists on protecting its state-owned carmaker, Proton, to the dismay of Thailand, which has a fast-growing automotive industry. The Philippines did lower tariffs on petrochemicals as required, but later thought the better of it and raised them again. Rice, the region's biggest crop, is excluded from the pact altogether.

But these omissions are mere details compared to the failure to implement the tariff cuts that have already been agreed. No one knows what proportion of trade within ASEAN actually takes advantage of the Common Effective Preferential Tariff, as the AFTA-mandated rates are known. Some estimates put the figure as low as 5%. An official at the ASEAN secretariat says he thinks the share is bigger, but admits he cannot prove it, since the member countries have not bothered to provide the secretariat with the relevant data.

Denis Hew, of Singapore's Institute of South-East Asian Studies, blames the low uptake on several factors. Many businessmen are reluctant to complete the arduous paperwork involved, he says, or simply do not realise that concessionary tariffs exist. For countries with low tariffs in general, such as Singapore, the difference between the CEPT and the ordinary rate might not be that great. And in the countries with high tariffs, like Myanmar, the authorities are reluctant to cut into their own revenue by promoting the exploitation of the CEPT. At any rate, the all-important “form D” often appears to be in short supply.

To be fair, ASEAN's leaders are trying to address these problems. At a summit last year in Bali, they pledged to streamline customs procedures and to adopt shared product standards. To make the task more manageable, they decided to press ahead in 11 “priority sectors”, from fisheries to aviation. They even agreed to set up a monitoring group, to check whether members are living up to their commitments, and a dispute-settlement procedure.

Indeed, at the same summit, ASEAN leaders promised to build an “economic community” by 2020. But the phrase is misleading: unlike the countries of the European Union, ASEAN's members will not countenance any reduction in sovereignty for the sake of deeper economic integration. They even rejected the suggestion of McKinsey, a consultancy, to beef up the secretariat—a building of echoing atriums and empty corridors, peopled by bureaucrats on short-term secondment from national governments. Nor do they envisage a customs union, with a shared external tariff, since that would force either low- or high-tariff countries to make dramatic changes in economic policy.

What with the different external tariffs, and the lack of any single authority empowered to negotiate for the group as a whole, those proposed collective free-trade agreements with other countries will obviously take a long time to conclude. ASEAN is aiming only to have a deal in place with China by 2010, India by 2011 and Japan by 2012. In the meantime, several members are pressing ahead with bilateral trade agreements that pre-empt and, in the eyes of some, undermine collective negotiations. Singapore has already concluded trade agreements with Japan, Australia, New Zealand and America.

This divergence over trade pacts points to a deeper rift within ASEAN. Countries that already have relatively open economies, such as Singapore and Thailand, view the grouping as a means to increase the competitiveness of their exports, and so to attract more foreign investment. According to this view, the pooled natural resources, shared industrial base and collective consumption of ASEAN should give even China a run for its money. The investment, by and large, would still come from beyond ASEAN, and most of the goods produced would end up overseas too.

But formally, at least, ASEAN is designed to promote trade and investment among its members, not with outsiders. Thus the six old-timers, for example, have agreed to accord one another's citizens the same rights as domestic investors by 2010, but will not grant outsiders equivalent treatment until 2020. In fact, the reverse would be much more useful. No wonder the likes of Singapore and Thailand are concentrating on their own market-opening measures—depriving ASEAN of its best integrators in the process.

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About sponsorship

Indonesia

Justice perturbed

Jul 29th 2004 | JAKARTA
From The Economist print edition

Why the men accused of the Bali bombing may go free

AP

Hard to prosecute

Get article background

INDONESIA'S Constitutional Court has just given a new lease of life—quite literally so in the case of the three men sentenced to death—to 32 Islamic militants convicted for their role in the Bali bombing that killed 202 people in 2002.

On July 23rd the court found that the government had violated the constitution by prosecuting the plotters using two laws that were passed after the event. The first of these was Indonesia's catch-all anti-terrorism legislation. The second referred specifically to the Bali atrocity, and has now in effect been annulled. The judges' basis for the ruling, which is not subject to appeal, was a constitutional amendment of four years ago prohibiting retrospective prosecutions “under any circumstances”.

Despite the apparent unambiguity of the decision, the bombers will not walk free immediately. Government officials are fighting to keep them behind bars, arguing (oddly) that this decision also cannot be applied retrospectively but only in future prosecutions.

The consequences of the ruling for the bombers are thus rather unclear. Their lawyers are now insisting that a court—it is not yet clear which—rather than the government should decide their clients' fate. But two alleged plotters in the Bali affair and the bombing in 2003 of the Jakarta's Marriott hotel have already benefited.

On July 27th prosecutors felt able to demand only ten years for the supporting roles played by Mohammad Ikhsan, better known as Idris, rather than the life sentence they had hoped for previously. Much more significant is the case of Abu Bakar Basyir, the alleged leader of the regional terrorist group, Jemaah Islamiah (JI), who is in detention on suspicion of involvement in terrorist activities, including the Bali and Marriott bombings. On July 28th the police said that because of the ruling he will no longer face charges in relation to Bali, though they will still seek to try him on other offences, including the Marriott attack and being the head of JI. The trouble is that Mr Basyir has been in detention since before the anti-terrorism law was passed. So the police will have either to conjure up offences under the normal criminal code, which will be no mean feat, or argue that the cleric was conducting terrorist activities from behind bars.

The judgment's ripples will not stop there. Indonesia's much-criticised tribunal on killings in East Timor in the late 1990s was set up retrospectively, so the few convictions it managed to hand down will probably need to be revisited. The same can be said for the ongoing trials of soldiers allegedly responsible for a massacre in North Jakarta 20 years ago.

One thing that is fairly certain is that the issue will excite more interest abroad than in Indonesia—especially in Australia, which lost more of its nationals than any other country in the Bali bombing. Polling this week showed that virtually no Indonesians consider the war on terror a significant issue as the second round of their presidential election approaches in September. Prices, jobs and corruption are seen as much more pressing than the fate of a handful of Islamic radicals.

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India and China

Vaulting the Himalayas

Jul 29th 2004 | DELHI
From The Economist print edition

The principle of peaceful coexistence: keep talking as long as possible

AMONG the mementoes Natwar Singh, India's foreign minister, shows visitors is a photograph taken in Beijing in 1957. It captures him as a young diplomat, alongside Mao Zedong and other Chinese leaders. It is a souvenir of a lost era of third-world solidarity, when India and China devised and embraced their "five principles of peaceful coexistence", whose 50th anniversary was celebrated in June. In 1962 they flouted them all by fighting a brief, bloody border war. China routed India, which has sulked ever since. Relations may now be on the point of recovery, though the "brotherhood" the giant Asian neighbours asserted in the 1950s remains a distant memory.

In Delhi this week, J.N. Dixit, India's national-security advisor, and Dai Bingguo, a Chinese deputy foreign minister, held two days of talks on the border dispute. Such discussions have a history dating back to 1981. A joint working group on the issue was formed in 1988. It made little progress, but allowed relations to improve in other ways. Last year Atal Behari Vajpayee, then India's prime minister, visited China and gave the talks new momentum. They were elevated from an exercise in cartographic quarrelling by officials to a "political dialogue", intended, presumably, to reach a conclusion. This is the third round, but the first since India's new government, led by the Congress party, took office in May.

There was no breakthrough, but China has been reassured that the new government wants to continue a steady improvement in ties. This has been led by business. Just a couple of years ago, Indian firms were fretting about losing market share to China. Now many see opportunities as well as threats. In the first five months of this year, Indian exports to China more than doubled compared with the same period last year, to $3.6 billion, while imports from China grew by more than half, to $1.9 billion. C. Raja Mohan, an analyst at Delhi's Jawarhalal Nehru University, sees vast potential as relations develop. Calcutta (now Kolkata), he points out, was once the port for Lhasa, capital of Tibet.

Regional and global politics also favour closer ties. Both countries, though keen to pursue better relations with America, are wary of its global dominance. China has moderated its traditional backing for Pakistan and its claim on Kashmir. Indeed, China has been exasperated by Pakistani provocations in Kashmir in recent years, and by the Islamic militants who sneak from Pakistan to its own Muslim-dominated western region of Xinjiang.

The outlines of a border deal have been clear for decades. India would cede its claim to an area of Ladakh in Kashmir, almost the size of Switzerland, occupied by China and of strategic importance to it. In return, China would accept Indian sovereignty over an area nearly three times larger, the state of Arunachal Pradesh. In each sector, some adjustments would be made. This would help spare India's blushes at a settlement it fought to thwart, and let China say it had not accepted a border imposed by British imperialists.

India, a raucous democracy, would have more trouble selling such a trade-off at home. In the military and intelligence establishments some are still thankful for the God-given barrier formed by the Himalayas. They see China as intent on the "strategic encirclement" of India through its neighbours, from Pakistan round to Sri Lanka. If India's political opposition, despite Mr Vajpayee's personal stake in relations with China, decides to play the patriotic card, Mr Dixit and Mr Dai may find it more convenient to keep on meeting amicably than to reach agreement.

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Afghanistan

Who's the boss?

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From The Economist print edition

Hamid Karzai and his unbiddable warlords

AFGHANS have a new pastime. They are debating whether their president is finally cutting the country's warlords down to size, or whether he is just electioneering. This week, by dropping Mohammed Fahim, the powerful defence minister, as one of his vice-presidential running mates for the October 9th presidential election, Mr Karzai seems to have sidelined one of the biggest challengers to his authority. There are many more to deal with.

This was a bold move, and Mr Karzai managed it without a confrontation. NATO peacekeepers, however, were alarmed enough to fill the streets of Kabul with troops, and its skies with helicopters. Foreign aid workers were warned to stay at home until tempers had cooled. For a couple of tense days, Kabulis recalled the traditional response of commanders left out of political deals—rocket attacks on their city. Nothing happened.

The popular view of the warlords, once heroes of the struggle against Soviet occupation, has changed radically. Bitterly opposed to subjecting themselves and their private armies to central authority, they are widely regarded as the country's greatest long-term problem. In a recent interview with the *New York Times*, Mr Karzai described commanders who have dragged their feet on the UN-backed militia-disarmament programme as being a bigger threat to Afghanistan's future than the surviving Taliban. This was underlined when, on July 28th, the medical relief agency Médecins Sans Frontières said it would leave the country, after 24 years, because of security concerns.

Mr Karzai, however, has not yet tackled these commanders and has been seen as making political deals with some of them, to the frustration of ordinary Afghans: some, indeed, have been brought into the cabinet, like Mr Fahim. Some warlords are ruling entire swathes of the country. They have been accused of hijacking the country's *loya jirgas*, the national grand councils which elected the transitional government and decided on the country's constitution. Mr Karzai's inability to act has not added to his credibility. Popular resentment has also been directed against America, which has been paying some warlords hefty sums to help hunt for al-Qaeda. Many believe that the warlords are now stronger than ever—and often deeply involved in the opium business.

There are exceptions. Gardez, a two-hour drive from Kabul, is one area where minor commanders were dealt with successfully. After repeated rocket attacks, two warlords with suspected Taliban sympathies were shipped off to Guantánamo Bay last year.

Other attempts have failed miserably. Last year, Kabul imposed a police chief backed by British peacekeepers on Mazar-i-Sharif to tighten central control on the northern city, caught in a power struggle between two rival strongmen. But following a row over alleged drug trafficking, the police chief became a prisoner in his own home, his men fled, and the showpiece attempt to extend control from the capital was a dismal failure. The lack of strong military backing from NATO is not helping Mr Karzai to assert his authority.

So far, the only public response from Mr Fahim—who is holding on to his militia—has been to back Yunus Qanuni, a former Northern Alliance leader turned education minister, as a candidate for the presidential election. But Mr Karzai astutely chose as a running mate the brother of Ahmad Shah Masoud, the assassinated Northern Alliance hero. At least the power struggle between the central government and the warlords is largely being fought without weapons. For now.

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Central Asia

Après moi le déluge (or my daughter)

Jul 29th 2004 | BISHKEK
From The Economist print edition

A region whose leaders find it hard to say goodbye

Reuters

Akaev: the long goodbye

BOWING out voluntarily is an idea Central Asia's authoritarian rulers—most of whom were already in power before their countries' independence in the early 1990s—find hard to comprehend. The outside world is therefore fond of Kirgizstan's president, Askar Akaev, who has stated repeatedly that he will step down at the end of his term in 2005, in compliance with the constitution's limit of two terms in office. But hopes for an orderly succession, even when pinned on a president who was once known as something of a democrat, may be premature.

Kirgizstan's constitutional court has recently started a review of whether Mr Akaev might be eligible for another term after all. Last year's amendments to the constitution—adopted in a referendum criticised by electoral watchdogs—could be interpreted as having given the country a new constitution altogether, usefully setting the term-limit counter back to zero.

Constitutional manipulation is popular in Central Asia. In 1994, Saparmurat Niyazov, Turkmenistan's leader, called a referendum to extend his term by another five years and got himself elected president for life in 1999. Last year, a referendum in Tajikistan confirmed constitutional amendments allowing President Imomali Rakhmonov to stay until 2020.

Such manoeuvres excite little comment, since political opposition has been stifled across the region. In Uzbekistan, no opposition party has been allowed to register, although elections are scheduled by the end of the year. All opponents to Mr Niyazov have been forced to flee. Prominent opposition figures are behind bars in Kirgizstan, Tajikistan and Kazakhstan. Besides, no election in the region has ever been deemed free and fair by international observers. Upcoming polls may not be very different, although Kazakhstan has made some cosmetic improvements.

Presidential relatives may, anyway, be getting ready to take up the baton. The pro-presidential party block known as Alga Kirgizstan, thought to be controlled by Mr Akaev's daughter, Bermet, has become increasingly active over the past few months in preparation for parliamentary elections next February. Created last year, it is well funded by businessmen eager to maintain the status quo. Mr Akaev's daughter and eldest son, Aidar, could make it to parliament, although they are still too young to run for president.

Something similar is happening in neighbouring Kazakhstan. Last year, President Nursultan Nazarbaev's eldest daughter, Dariga, set up her own political party, Asar, a front-runner for elections scheduled for September. Her sudden entry into politics is seen by the opposition as a bid to succeed her father, whose term ends in January 2006. Mr Nazarbaev has already said he will run again, though a scandal currently unravelling in America may push him into early retirement. A former American adviser to Mr Nazarbaev, James Giffen, is due to be tried in New York this October, accused of feeding Swiss bank accounts belonging to top Kazakhstan officials. Mr Akaev has certainly been careful to plan for all eventualities. A law adopted last year grants him amnesty and a plump pension once he is out of office.

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North Korean defectors

Heading south

Jul 29th 2004 | SEOUL
From The Economist print edition

Welcome to capitalism

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DEFECTORS have arrived before, but not on this scale. On two consecutive days this week, South Korea flew in a total of some 450 refugees from the North, boarding them in what it coyly called “a South-East Asian country”. This made them the largest single group of North Korean refugees ever to arrive in the South.

Although the government refused to say which South-East Asian country the refugees came from, it soon became an open secret that it was Vietnam. The veil of secrecy was designed not only to save face in Vietnam—which enjoys close relations with the regime in Pyongyang—but also to avoid antagonising the North. The South is trying to strike a balance between ties with its northern neighbour and the humanitarian needs of defectors. It may not have worked. On July 29th, the North Koreans accused the South of kidnapping their nationals. If they are seriously annoyed, they may skip the inter-Korean ministerial talks planned for next week.

The southern authorities have started debriefing the new arrivals, who will then receive training to ease their transition from communism to a market economy. It is a far cry from the days, less than a decade ago, when the South viewed anyone from the North as the agent of an enemy state and turned away asylum applicants from its embassy doors. It now embraces them as citizens eligible for residency. As a result, the number of such defectors has swollen. About 4,000 of the 5,000 or so refugees who have gone South in the past 50 years have arrived since 1999.

There are many more to come. Human-rights organisations say that tens of thousands of North Korean defectors are living in the border area with China, having fled hunger and repression at home. The South will accept applications for asylum from any North Korean living in a third country except for Russia and China (Moscow and Beijing are wary of damaging their close links with Pyongyang). This has driven hundreds of would-be defectors on a circuitous route from China to South Korea via Vietnam, Cambodia and Thailand.

The sudden influx is already stretching South Korea's generosity. The minister for unification, Chung Dong-young, admits the need to overhaul the immigration system. But if relations became really warm, today's trickle from the North would become a flood. The planners' real worry is reunification. There are 23m North Koreans to the South's 48m, with only a tiny fraction of their average income. The economic consequences of German reunification would seem trivial in comparison.

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Sudan

The world notices Darfur

Jul 29th 2004 | KHARTOUM
From The Economist print edition

Magnum

Why has it taken so long? And what will be done to stop the killing?

Get article background

FINALLY, the world seems to have noticed the inferno in Darfur. Last week, America's Congress passed a resolution declaring that the Sudanese government was committing “genocide” in this western region. The House of Representatives approved the motion by the convincing margin of 422 votes to none—and the Senate “concurred”.

Sudanese officials were so shocked that they switched off their mobile telephones en masse, to give themselves time to craft a response. They then dismissed the resolution as a cynical attempt to woo black American voters. Khartoum's ambassador to Washington claimed that America was picking on the Sudanese government because of its opposition to the war in Iraq.

The UN Security Council was this week pondering whether to threaten sanctions. Some members are considering tougher measures: the head of Britain's armed forces caused a stir by suggesting that a detachment of 5,000 British soldiers could, potentially, be sent to Sudan. The rebels in Darfur applauded. Sudan's government vowed to mobilise the entire nation to fight back. Local Islamist groups distributed leaflets urging good Muslims to rush to Darfur and dig “mass graves for the Crusader army”.

The Sudanese regime denies that genocide is taking place in Darfur, and insists that it is doing all it can to allow fugitives there to return safely to their villages. Of the 212,000 people it admits have been displaced, it says that 90,000 have voluntarily gone home.

A headman in South Darfur describes one such homecoming. The *janjaweed*, an irregular militia armed by the government, had burned his village to ashes twice last year, prompting its residents to flee. After several months in a wretched camp, all were eager to return. The army assured them it would be safe, and even rebuilt some of their huts with mud and straw. So the headman led his people back.

This week, the *janjaweed* returned on horses and camels and burned the village down yet again, shooting 12 villagers dead. “I wanted to believe we could go back,” said the headman, but “it's like believing a thief who says he won't steal again.”

The government says it is prosecuting militiamen who kill civilians. But observers suspect it is merely scapegoating petty criminals. It released footage of a 20-year-old alleged hut-burner who needed several prompts from an interviewer before he said that the *janjaweed* received no support from the government.

Having armed and unleashed the *janjaweed*, could the government in Khartoum rein it in again? A Sudanese intelligence officer says he doubts it. Musa Hilal, a *janjaweed* leader, has 12,000 fighters loyal to him. “How are you going to force him to do something he doesn't want to do?”

Far from trying to curb Mr Hilal, senior army officers treat him with deference. He shuttles between Khartoum and his stronghold in North Darfur, supping and chatting with security people. The villages under his protection have barely been singed, which is one reason he inspires such loyalty. He says he is merely protecting Arabs from the rebels. He dismisses talk of atrocities committed by his men.

“Things happen in wars,” he says. “A bullet can miss its mark.” As to the charge that his men rape black women: “Why would we rape them? They disgust us.” He adds that African tribeswomen are barely Muslim and have such wanton sexual habits, as seen from the way they dance, that force would hardly be necessary.

Feed the hungry, stop the killing

For outsiders, the most urgent tasks in Darfur are to feed the hungry and stop the killing. Both are daunting. Even if the government did not obstruct aid workers, which it often does, their job would be logistically tough.

Darfur is so remote that it was only absorbed into the British Empire as an afterthought in 1916. One of its towns, el-Geneina, has the distinction of being equidistant between the Red Sea and the Atlantic, but slightly easier to reach, during the rainy season, from the Mediterranean.

That season has arrived, and will last until September. The roads are rapidly becoming impassable. This week the World Food Programme was planning its first air-drop of aid packages. The region's 1.2m fugitives have missed the planting season, so they will starve unless fed by others.

Aid agencies estimate that they have no more than 40% of the cash they need to keep the needy alive. The World Health Organisation predicts a cholera outbreak that could affect 300,000, followed by a malaria epidemic. And there are still wide areas too dangerous for help to reach.

In the medium term, Darfur can only begin to recover when its people feel safe enough to return to what is left of their homes. The Sudanese government might, possibly, be bullied into helping restore order, if threatened with an oil embargo, though China and France, whose firms have sunk a lot of money into Sudanese oil wells, would probably resist this.

For obvious reasons, Darfuris do not trust the Sudanese army, so regardless of whether or not the government starts to behave, foreign peacekeepers would be useful. A large force would be needed. Securing the camps where the displaced huddle, which are dotted on either side of the remote and sandy border with Chad, would be hard enough. But there are also thousands of fugitives scattered outside the camps, hidden by day, foraging by night, across an area the size of France. To guard them all, only 300 Rwandan and Nigerian soldiers have yet been pledged, and these by the African Union (AU), which is only as reliable as its member-states. The AU says it may consider sending more.

While western countries dawdle, this may be all the peacekeeping Darfur will get. Neither the EU nor

NATO seems keen. On the fringe of European trade talks in Brussels this week, EU foreign ministers mooted sanctions but not military intervention. “However much hand-wringing there is, we're simply not up to something like this yet,” said one EU official.

His caution is understandable. Darfur was not such a charnel-house before the government let loose the *janjaweed*, but its problems do have old and knotted roots. The region has had no working police force for 20 years, so people carry guns. No camel herder would move a thousand head—a million dollars on the hoof—300-odd miles through unfriendly territory without arming his herd boys. Drought often sparks battles over water and pasture.

Such spats have been aggravated by a new ideology of Arab supremacism. Darfur's Arabs are savannah Bedouins: sometimes as black, indigenous and African as the villagers they slaughter, and with little in common with the Arab elites of the Nile that have ruled Sudan since independence in 1956. But in the 1980s, many emigrated to Libya and joined Muammar Qaddafi's “Islamic Legion”—a multinational mercenary force that the Libyan leader used to invade Chad and to attempt to carve an “Arab corridor” out of Sahelian Africa. In Darfur, “Arab” has become partly a political label.

Darfur is now so unstable that tribal violence unrelated to the main war flares often and bloodily. This month, for example, 70 people were killed during four days of clashes between an African and an Arab tribe in South Darfur. Another 35,000 fled their villages.

The team of international mediators for Darfur—led by the AU's energetic chairman, Alpha Konaré—is beginning to realise that this will be a long haul. Both sides are dragging their feet. The government does not want to make concessions; the rebels are hoping that powerful foreigners will intervene. Disarming Darfur's gunmen will be hard: they tend to hand in ancient rifles while keeping their modern ones buried under bushes. The region needs a negotiated settlement, but that won't happen unless the killing eases.

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International law and genocide

Must intervention be legal?

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Armed intervention in Darfur may—or may not—flout the law. So what?

FOR many outsiders, common sense dictates that there should be immediate military intervention in Darfur. But what, legally, can be done?

Under the UN Convention on Genocide in 1948, the 127 state signatories undertook to “prevent and punish” genocide, defined as “acts committed with intent to destroy, in whole or in part, a national, ethnic, racial or religious group”, including the causing of serious bodily or mental harm, preventing births or inflicting conditions calculated to lead to a group's destruction. States may act alone or call on the UN to take “appropriate” measures.

Is what is happening in Darfur genocide? Legally, it is fuzzy. Though Sudanese Arab militias have been targeting three black African tribes, some Arab groups have also been attacked and some African ones spared. America's Congress has called the attacks genocide, but the Bush administration has carefully avoided the word. The African Union and various human-rights groups argue that the threshold for genocide has not yet been crossed.

It may not matter much, for under international law, there is no inherent right of armed humanitarian intervention, even to stop genocide. The UN charter only sanctions force in self-defence (Article 51) or when authorised by the Security Council to prevent a breach of the peace or an act of aggression (Chapter VII). It specifically forbids intervention “in matters which are essentially within the domestic jurisdiction of any state”, though this injunction can be overridden by a Chapter VII authorisation. Sudan has warned Britain and Australia “not to meddle” in its affairs after they said they would be prepared to send in peacekeeping troops.

The UN has, of course, intervened in the past to stop gross violations of human rights—in Somalia and Yugoslavia, for example. But it has only ever done so under Chapter VII in the name of preserving the peace. It could do so again. But this would require a Security Council resolution, which China (because of Tibet) and Russia (because of Chechnya) are likely to veto. A UN resolution drafted by the Americans is now circulating but it talks only of sanctions, not intervention.

Many governments, particularly poor and despotic ones, argue that national sovereignty should always trump humanitarian issues. Most western ones argue the opposite. One way round a possible veto would be to invoke the UN's “uniting for peace” resolution, put forward by the United States in 1950 to overcome the Soviet veto on military intervention in Korea. Under it, the UN's General Assembly may “recommend” measures, including the use of force, to counter a threat to peace, if the Security Council is unable to act. But many are reluctant to invoke an instrument that they fear would undermine the Council's authority.

Another possible tack would be to persuade Chad, across whose borders tens of thousands of Sudanese refugees are streaming, to initiate an intervention in Darfur under its right to self-defence. This would obviate the need for a Security Council vote and thereby the threat of a veto. But could Chad be persuaded?

It would, of course, be possible to intervene in Darfur without going through the UN. This need not be as drastic an assault on international law as some legal sticklers fear. Provided that China and Russia did not object too publicly (and how could they in the face of such carnage?), an intervention could be justified with reference to NATO's campaign in Kosovo, which proceeded without UN approval. That might even set a useful precedent for dealing with future catastrophes.

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Bahrain

An Arab exception

Jul 29th 2004 | MANAMA
From The Economist print edition

The sheikh who made himself king looks like a genuine reformer

AFP

Hamad likes reform

THE causeway that leaves the Saudi city of Khobar, scene of a bloody terrorist attack on foreigners in May, threads through the islet of Umm Nasan (Mother of Drowsiness) before reaching the Bahraini capital, Manama (Sleeping Place). But it is not just salt water and soporific signposting that separate the Gulf neighbours. As giant Saudi Arabia tenses for what some believe is an impending civil war between autocratic rulers and Islamist fanatics, little Bahrain is cutting a different course. Not only may its women go out unveiled and drive cars, they may even vote. The course may be slow and not always steady, but the country's 675,000 residents already have more freedom than those of any neighbouring country—so much so that they are noisily demanding more.

Bahrain has not always been a happy place. In the 1970s its feisty parliament so annoyed the then ruler, Sheikh Issa bin Salman al-Khalifa, that he closed it. The country remained firmly under martial law until his son and successor, Sheikh Hamad, brought in sweeping reforms three years ago. The changes instantly made him the most genuinely popular of Arab leaders. Few Bahrainis grumbled when he elevated his own title to king. But doubts about the ruling Khalifa family's commitment to reform keep re-emerging.

This is not surprising. While the Khalifas and the bulk of their army and police are Sunni Muslims, 70% of Bahrain's citizens are Shia. Unlike other Gulf monarchies, Bahrain does not drip with oil. Most of its people actually have to work, and increasingly there are not enough jobs or houses for newly-weds to go round. The country does nicely enough by offering services, from banking to bars, that are unavailable in nearby Saudi Arabia, yet the Khalifas themselves control a fat slice of the cake, including all the best land in the crowded archipelago. And while Bahrain is an old and staunch ally of America, whose Fifth Fleet is based here, many of its people loathe America's foreign policy.

Given the potency of such grievances, King Hamad has been careful not to relinquish too much of his birthright. The constitution he decreed in 2002 kept half the legislature's seats for his appointees and hobbled its power to initiate laws or question officials. The king gave himself a veto, and the right to dissolve the council, while his ministers redistricted the country to the Sunnis' advantage and allegedly tilted the communal balance by granting passports to thousands of Sunni immigrants.

In response, the mainly Shia opposition boycotted elections in October 2002, leading to a low turnout and a heavily Sunni-dominated parliament. Since then, wiser heads in the opposition have kept a lid on the more hot-headed of their fellow Shias, some of whom admire Lebanon's Hizbullah and Iran's ayatollahs. Earlier this year a wide-ranging group of critics launched a petition calling for Bahrain's tentative democracy to be given real clout. The police reacted by jailing 19 of them.

This episode seems to have had a happy ending. King Hamad swiftly pardoned the petitioners and called for dialogue with the opposition. When police then roughed up some Shia clerics who were demonstrating against America, he promptly sacked his own uncle, who had been interior minister since 1974. The king's popularity has again soared.

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Iraq

Who'll be in the tent?

Jul 29th 2004 | KIRKUK
From The Economist print edition

Amid bombs and delays, Iraqis are groping towards a kind of democracy

Get article background

IT WAS a nail-biting week for Iraqi democracy. The new interim government was insisting that a national conference, better known as “the big tent”, would start on July 31st, embracing about 1,000 delegates who would then pick a 100-strong assembly to serve until the end of January, when the Iraqis would directly elect a full-blooded parliament. But, after a particularly bloody week, which saw a suicide-bomber kill some 70 Iraqis in a town near Baghdad, the latest reports suggest that the meeting in the tent would, after all, be put off, perhaps till mid-August. Earlier, Fuad Massoum, head of the steering committee overseeing the selection of the tent's delegates, had said it was a “matter of credibility” that the event should go ahead.

Assuming that it does take place fairly soon, it will be an essential step along Iraq's bumpy road to some kind of democracy, however rough and ready. Over half of the 1,000 delegates have earned their places in the tent after “caucus” elections in Iraq's 18 provinces, with successful candidates sometimes defeating as many as 30 rivals. The remaining 440 places in the tent have been distributed among established political parties, civil-rights groups and tribes, as well as the entire 100-strong steering committee chosen a couple of months ago by the American-appointed, now-dissolved, Governing Council. A quarter of the seats will go to women.

The national assembly will have more clout than any Iraqi parliament for decades. It will be able to veto legislation with a two-thirds majority, approve the budget and appoint new ministers in the event of their death—all too possible, given the insurgents' penchant for assassination. Liberal Iraqis think the assembly is urgently needed as a counter to the interim government of Iyad Allawi, who is consolidating his own power and tightening his grip on key portfolios by setting up committees for oil, security and the media.

Erecting the tent has, inevitably, been a tricky business. Its timetable has already been changed several times. Four days before it was supposed to open, the steering committee had yet to issue invitations. Voting procedures in the provincial caucuses were often chaotic. Some had to be cancelled because of what Mr Massoum calls “extreme discordance”. In the oil-rich, disputed multi-ethnic northern town of Kirkuk, a caucus had to be scrapped because rival Turkomen, Kurds and Arabs failed to agree on how to draw up a list of candidates; they then squabbled even more furiously when the authorities in Baghdad proposed a list of their own.

The United Nations' team, which has only recently returned, has been keen to delay proceedings, upset that the Iraqis had not heeded its advice. After all, the big-tent idea was the brainchild of the UN's former envoy, Lakhdar Brahimi, who previously oversaw two successful *loya jirgas* (“grand councils”), similar in size and in method of selection, in Afghanistan. But the committee arranging the Iraqi tent included all the members of the now defunct Governing Council that Mr Brahimi had excluded from the current interim government: few wanted him to re-enter the fray. Jalal Benomar, an aide who stayed on after Mr Brahimi left, has offered to help.

By no means all Iraqis will be represented in the tent. Two powerful rebel mouthpieces—one Sunni, the other Shia—are calling for a boycott of the event, denting hopes that it may draw the rebels back into peaceful politics in the wake of the American handover. This week the Islamic Party, whose leader was in the old Governing Council, said it would stay away, so no Sunni religious party with support in the Sunni triangle will have a voice. Mr Massoum has again appealed to representatives of the turbulent Shia cleric, Muqtada al-Sadr, to join in. But they and the Muslim Scholars' Council, a Sunni body that uses its pulpits

to encourage the rebels, merely say they will watch developments, implying that they may keep a foot in both the government's and the insurgents' camps. They may even let some of their provincial representatives attend, while their leaders denounce the tent as just a cover for military occupation.

A fairer criticism is that members of the old Governing Council look as if they will wangle too much power for themselves in the new assembly. As members of the steering committee, the 20 members of the old council who failed to win ministerial posts have already awarded themselves seats in the new, 100-strong assembly, leaving the 900-plus other delegates in the tent to fight for the assembly's remaining 80 seats. They have also nominated their followers as delegates for many of the 440 places in the tent not chosen in caucuses. And some Shia and Sunni Arabs have complained that the Kurds, with an unwritten quota of 25% of the tent's delegates, are over-represented. Mr Massoum is himself a Kurd.

It was bound to be a messy affair. The general election due in January should provide a truer reflection of the people's wishes. Yet, flawed though its composition may be, the tent—once it is up—should offer as democratic an expression of views as Iraq has witnessed for many decades.

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Iran

What a farce

Jul 29th 2004 | OTTAWA AND TEHRAN
From The Economist print edition

The murder of a journalist goes unpunished

Get article background

Getty Images

Son demands justice for mother

IT WAS a farcical solution. Muhammad Khatami, Iran's timidly reformist president, had been keen that interrogators from the intelligence ministry should not be blamed for the murder of Zahra Kazemi, a 54-year-old Iranian-Canadian photojournalist, following her arrest last year. Mr Khatami's foes in the conservative judiciary were equally determined that officials under their purview should be exonerated. So, on July 24th, efforts to find and convict a culprit were abandoned when the trial of an alleged killer ended in an acquittal—for "lack of evidence".

Most people agree that Muhammad-Reza Ahmadi, the intelligence agent who was acquitted, did not cause the brain haemorrhage that killed Ms Kazemi. Instead, Abdolfatah Soltani, a lawyer representing the Kazemi family, points to a wealth of evidence suggesting that prison officials landed the fatal blows. But he says that judges sympathetic to the prison authorities let their officers' tracks be covered.

Mr Soltani alludes to many witness statements, later retracted, attesting that a senior prison official hit Ms Kazemi very hard on the day of her arrest. Mr Soltani also says that records of a brutal interrogation that allegedly happened the same night were tampered with. Early in the case, a culture-ministry official accused Saeed Mortezavi, Tehran's notoriously harsh prosecutor who has led a campaign to gag Iran's reformist press and jail its stars, of pressurising him to announce that Ms Kazemi died of a stroke.

Doubts multiplied during the trial. Why, Mr Soltani asks, did the judge refuse to call the original witnesses or to hear a doctor who was prepared to testify that Ms Kazemi's injuries might have been caused early in her four-day detention in prison—in other words, when she was in Mr Mortezavi's hands? Why did the indictment ignore Ms Kazemi's allegation, apparently referring to her interrogation by judicial officials, that "they have broken my nose, and my thumb and toe"?

Mr Soltani's explanation? "Justice has been sacrificed to political machinations." For a president who stresses the rule of law, Mr Khatami has shown little appetite to pursue the case. Last year, a report that he commissioned did not question medical reports, hotly disputed by Ms Kazemi's mother, that the corpse showed no signs of torture. With the intelligence ministry's man off the hook, no one expects it to carry out its threat to reveal its version of events.

A second report on the same case, issued by the last reformist parliament before its dissolution earlier this year, was much tougher on the judiciary. Mr Mortezavi was characteristically contemptuous of its findings. He and his supporters have less to fear from the new parliament, now stuffed with conservatives. It kept obligingly quiet a few weeks ago, when the judiciary forced two reformist papers to suspend publication; one had criticised the judiciary's handling of the Kazemi case.

The head of Iran's judiciary, Ayatollah Mahmoud Hashemi Shahroudi, sounds a bit embarrassed. Citing the "national headache" caused by Ms Kazemi's murder, he recently issued a directive, swiftly passed into law, banning torture. On July 20th, a judge handed a relatively light prison term to Hashem Aghajari, a freethinking academic who had criticised the clergy, in place of the death sentence that he

had received nearly two years ago.

Still, the Kazemi case is a reminder to Iran's interlocutors of their frustratingly limited influence. The European Union ruminates glumly on its two-year human-rights dialogue with Iran. The EU's sole undisputed achievement is a moratorium on the stoning to death of adulteresses. “It's hard”, confesses an EU diplomat, “to determine whether the dialogue is helping the human-rights situation or exacerbating it.”

Canada withdrew its ambassador when he was denied access to the second session of the recent trial. The new Canadian foreign minister, Pierre Pettigrew, is pondering other forms of protest, which might include sponsoring a resolution at the United Nations to condemn Iran's handling of the affair and taking the case to the International Court of Justice in The Hague. But Mr Pettigrew says he still hopes that there will be a successful appeal against the Iranian court's verdict and that a more “serious” trial will then be held.

This cautious vagueness infuriates Ms Kazemi's son, Stephan Hachemi, who has spent much of the past year campaigning for his mother's body to be returned to Canada and for her killers to be held to account. Canada, he says, has been “humiliated, lied to, toyed around” by Iran. At a meeting this week with Mr Pettigrew, he called for Iran's ambassador to Canada to be expelled and the embassy closed. Alas, that is unlikely, at present, to make Iran's interrogators gentler, its judiciary fairer or the grip of the conservatives weaker.

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France

The price of unexpected success

Jul 29th 2004 | PARIS
From The Economist print edition

AFP

The prime minister may have saved his skin by doing better than expected at promoting change–but voters are still not impressed

Get article background

WHEN President Jacques Chirac unexpectedly retained Jean-Pierre Raffarin as his prime minister, despite this year's dismal round of election results, savvy voters felt a game was being played: Mr Raffarin's role was to take the rap for some tough measures that lay ahead. Widespread unrest over a reform of public-health insurance and a move to privatise the electricity utility was widely expected. The unions would take to the streets. Public services would be paralysed. All this confirmed the view that Mr Raffarin was being used as a fall-guy.

Yet as France's parliamentary year ended this week, Mr Raffarin has several grounds for satisfaction. He has survived a vote of confidence. He has also just passed one clutch of reforms, and unveiled a fresh round for the autumn. Has his last-ditch effort to keep his job paid off?

Against the odds, the government has pulled off three important initiatives. The first is a law to turn Electricité de France, a nest of Communist-backed unionism, into a public company. Although workers will retain their civil-service perks, this opens the way for partial privatisation. The government insists that it will keep a 70% stake, but similar promises have been disregarded in the past. Given the symbolism of EDF, whose powerful unions have petrified previous governments, this change in itself is no small achievement.

Second, the government has passed a law to prop up France's public health-insurance system. Though health care is first-class, costs are out of control. The French are second only to the Americans in popping pills, and spend 9% of GDP on health, second in Europe only to Germany. This year, France's public-health fund deficit is expected to top €13 billion ($15.7 billion).

The reform stops short of a radical overhaul. François Bayrou, a centrist politician, dismisses it as a *réformette*. Yet it nevertheless introduces important principles that have long been resisted by politicians and doctors. These include an up-front, non-reimbursable charge (initially one euro) for consulting a doctor; the introduction of computerised and shared medical records, to cut down on duplicated testing

and to help diagnoses; and the requirement to be registered with a single family doctor, who will act as a gatekeeper for specialist consultations. Such changes may appear simple common sense, but in France's liberal medical world they are regarded as big infringements on individual freedom. Hoped-for efficiency gains, if achieved, will be accompanied by an increase in social charges to help to control the deficit.

The third reform, guillotined through parliament this week to howls of protest from the opposition Socialist Party—a move which in itself triggered the vote of confidence—decentralises a bit of the civil service. The law devolves certain responsibilities, including national roads, most ports and airports, certain social-housing funds and training schemes, and technical secondary-school employees and caretakers. Some 130,000 civil servants will be transferred to local authorities. The government says it wants to rationalise a labyrinthine public service. It also calculates that it will be less difficult to shed bureaucratic jobs in future if they are not all centrally based.

All of which led Mr Raffarin, flush with his successes, to claim this week that it had been “a great year of reform for France”. The health reform in particular, he added, showed that it was possible to modernise France without provoking a *choc social*. In a bid to reassert authority, he unveiled a fresh burst of reforms for the autumn.

On the labour market, the unemployed will be given incentives and help to find work, including the possibility of benefit cut-offs; discussions will re-open on ways to make the 35-hour week more flexible. On the public service, there will be a reform to ensure that basic trains and other public services operate during strikes, to avoid the habitual paralysis; some 10,000 civil-service jobs will be cut. On education, research will get a big cash injection, while secondary schooling will be reformed. In short, Mr Raffarin seemed to say, he has life left in him yet. Indeed, the man whom many consider a caretaker, has now lasted longer as prime minister than both Alain Juppé, in 1995-1997, and Mr Chirac's most recent term, in 1986-1988.

All the same, Mr Raffarin can scarcely be complacent. His confidence rating has sunk from a high of 64% in 2002 to just 26% today. Worse, according to the latest monthly popularity ranking from IFOP, a pollster, he ranks a miserable number 32—below both the Communist and the Trotskyite leaders. A majority of deputies in the ruling Union for a Popular Movement (UMP) have now swung behind Nicolas Sarkozy, the ambitious finance minister, for the vacant job as its new boss.

This weakness is partly explained by Mr Raffarin's unpopular reforms. But it also undermines their impact: the prime minister pushes through important reforms with one hand, while handing out concessions to special-interest groups—tobacco sellers, research scientists, part-time theatre technicians—with the other.

Mr Raffarin may have secured his job for the autumn. He certainly reckons on keeping it longer: he has started to plan a campaign for a yes vote in the French referendum on the European constitution, due to be held in late 2005. But the more restless that UMP deputies become, the more his lack of popularity, and authority, will be a problem. If the president keeps him on, it will probably be because—for now—he has no acceptable alternative.

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Italy

Big mountains,small mice

Jul 29th 2004 | ROME
From The Economist print edition

After complex political intrigues, pension reform scrapes home

Get article background

WHEN a hard-pressed prime minister uses every trick in the book to ram through painful changes, some progress is eventually made; that is as true in Rome as it is Paris. But in Italy, the struggle is even harder, and the fruits more modest.

On July 28th, the Italian parliament approved the first structural economic reform to be enacted in the three years that Silvio Berlusconi's government has been in office. The new law, which changes the pension system, is not exactly radical. It raises the retirement age from 57 to 60 and does not take effect until 2008. But thereafter it should save the treasury around 0.7% of GDP a year, and it goes some way towards eroding Italy's huge debt (of 106% of GDP).

Yet just to get this measure approved, Mr Berlusconi had to resort to manoeuvring that would have bewildered a Byzantine courtier, and a confidence vote that might have felled his government. As usual, his problems had less to do with the disunited opposition than with the parties in his own fractured coalition, each of which has enough seats in the legislature to bring the government down.

This time, the would-be spoilers were the Northern League, populists who speak for prosperous areas that adjoin Europe's heartland and loathe subsidising the chaotic south. No matter that the pension bill was the work of one of the league's own ministers, Roberto Maroni. The northerners needed a hostage. Another party in government, the Christian Democratic Union of the Centre (UDC), was threatening a measure even dearer to the league's heart, a constitutional reform offering more autonomy to the regions.

The UDC—the remains of the old Christian Democratic Party, which dominated the post-war scene—has of late taken over from the league as the loosest cannon on the deck of Mr Berlusconi's storm-tossed ship. Puffed up by his party's good showing in last month's European elections, when it raised its share of the vote to all of 5.9%, the UDC secretary-general, Marco Follini, has been demanding changes to the government's programme.

So far, he has been getting everything he wants, including an important change in economic policy. After the hard-right National Alliance (the second-biggest coalition partner) on July 3rd unseated the finance minister, Giulio Tremonti, the prime minister took over that portfolio. He hoped to keep it for as long as needed to pass the tax cuts on which he has staked his political survival. But the UDC, which is much warier of tax cuts, demanded that he should relinquish the job.

On July 16th, Mr Berlusconi appointed a senior civil servant, Domenico Siniscalco, who promptly told him the tax cuts were unrealistic, at least for now: what Italy needed instead was €24 billion ($29 billion) of spending cuts to keep its pledges under the EU's stability and growth pact.

A week later, Mr Berlusconi again recognised the UDC's increased weight when he named its president, Rocco Buttiglione, to take the place of Italy's highly respected EU commissioner, Mario Monti. Opposition politicians deplored the move, saying it would mean Italy got a lesser post than the commission vice-presidency reportedly earmarked for Mr Monti.

But Mr Buttiglione's nomination opened the way for a compromise. It helped widen a rift in the UCD between Berlusconi loyalists like himself and the mutineers under Mr Follini, who subsequently agreed to further talks on constitutional reform in August. That temporary retreat encouraged the league to drop

the other knife being held to Mr Berlusconi's throat, over pension reform. Even so, a deal was only reached after a call by the prime minister to the league's leader, Umberto Bossi, who is lying in a Swiss clinic after suffering heart failure. At this rate, he may not be the last politician to do so.

The opposition, meanwhile, wonders how long Mr Berlusconi can simply lurch from one cliff-hanger vote to the next. Polls suggest that if his government fell, he and his allies would lose the ensuing election. So the most plausible answer to the opposition's question is: “a while yet”.

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French television

Why cocks can't crow

Jul 29th 2004 | PARIS
From The Economist print edition

France makes a tactical retreat in its bid to create CNN à la française

AT THE height of the Iraq war, when flag-waving Fox News anchors unapologetically cheered on American soldiers, France's President Jacques Chirac vowed to set up a 24-hour television news channel of his own. The point, he insisted, was not to create a crude propaganda tool; it was to counterbalance the dominance of English-speaking CNN, Fox and others. Now the project seems to have been shelved.

France has been trying for years to launch a French-language news channel. “Recent crises have exposed the handicap that a country suffers”, the president declared in 2002, “if it does not have sufficient weight in the battle of images and airwaves.” A rival to CNN and the BBC, Mr Chirac added, was “essential” for French global influence. A government commission was created. Last September, TF1, France's top commercial channel, and France Télévisions, the state broadcaster, were invited to co-found a new network, the *Chaîne d'Information Internationale* (CII).

Since then, however, the project has run into endless objections. Like BBC World, it was not to be broadcast at home; yet, unlike BBC World, it was to be almost entirely state-financed. This state subsidy was guaranteed, yet half the channel was privately-owned. The joint venture itself was an odd union of France's two big TV rivals, with different journalistic cultures. It was to be broadcast only outside France, yet—initially—only in French. Moreover, there is already an international French-language channel—TV5—a combined French, Swiss, Belgian and Canadian operation. There is also a French 24-hour news channel, LCI, owned by none other than TF1, which, conveniently enough, would not face competition from CII since it airs only in France.

Above all, there has been budget trouble. At €70m ($84m) a year, it is too small to be serious: by an official French calculation, CNN's international version spends $1.2 billion on a comparable exercise. Yet it is also too much: at a time of budget cuts, the French foreign office, its chief sponsor, cannot find the cash. Michel Barnier, the foreign minister, said quietly last week that he had no money for CII in his 2005 budget, and possibly not 2006 either. For now, at least, President Chirac will have to rely for a global voice on his own *bon mots*.

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Germany and America

Is it rejection or seduction?

Jul 29th 2004 | BERLIN
From The Economist print edition

Both anti-Americanism and the opposite have deep roots in Germany

AP

A rift, or just a tiff? Loving to hate America

Get article background

IF MICHAEL MOORE bumped into an average German on the street, the encounter might be rather strained: the film-maker's grungy appearance could well be taken as one more piece of evidence of America's incorrigible ugliness.

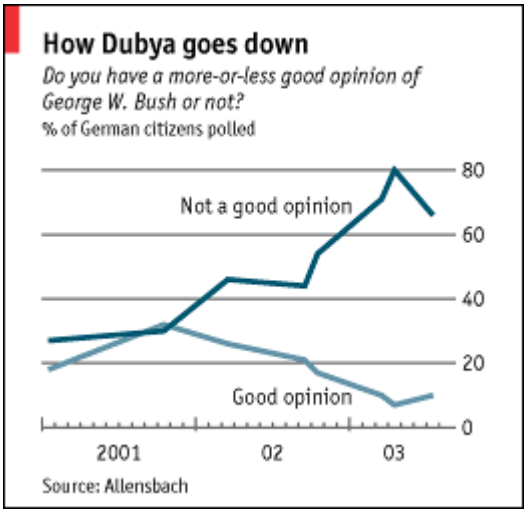
But looks aren't everything: like most Europeans, the Germans love the way Mr Moore is exposing the defects, real and imagined, of his own country. His books top best-seller lists; and his documentary "Fahrenheit 9/11", which opened in Germany on July 28th, has won plaudits from some very unlikely quarters. Even the *Frankfurter Allgemeine Zeitung,* a staunchly conservative daily, has hailed him as "an expert at revealing inconsistencies between appearances and reality".

So what—in reality—is happening to what used to be the most fundamental of transatlantic friendships? Can the citizens of a republic that was largely moulded, in its modern form, by American judges, generals and administrators be turning irreversibly against their old mentors? Or is the current estrangement just a phase, based on antipathy to American policy rather to America as such?

To say that Germans don't like George W. Bush is an understatement. Not since the time of Ronald Reagan—routinely dismissed in the mainstream media as a "trigger-happy cowboy" or worse—has it been so fashionable to deride America's leadership. Many Germans say they dislike the style as much as the content: the quasi-religious rhetoric now coming out of the White House makes them cringe.

Opinion polls point to a startling deterioration in America's image. The words Germans associate most with Americans, according to a survey by the Allensbach Institute, are "inconsiderate" (54% of interviewees—up from 28% in 1991), "violent" (54% against 33%) and "arrogant" (66% against 38%). According to another survey, 54% of Germans now see France, not America, as their country's "best friend". The United States

only scores 15%.



Karsten Voigt, a veteran Social Democrat who co-ordinates German-American co-operation for the centre-left government, insists that the current mood is just a transitory one, prompted by specific disagreements with a specific administration. That implies that things can, and probably will, get better. But Josef Joffe, another strong German advocate of transatlantic ties, believes that anti-Americanism goes deeper. As co-editor of the intellectual weekly, *Die Zeit*, he reckons that for more than almost two centuries the impulse to knock Uncle Sam has existed among Germans of many different political hues.

As far back as the Romantic period of the early 19th century, there were complaints about American materialism. During the Weimar era, immediately after the first world war, it was the political right that used to denounce America as a steam-roller of modernity, threatening to flatten out the idiosyncrasies of German culture. That in turn made it slightly easier for Hitler to demonise the Americans as eternal foes. After 1945, that critique was turned on its head: America was carelessly denounced as “fascist” by some parts of the West German left, and by the propaganda of communist East Germany. More fundamentally, Mr Joffe believes, Germans resented America because, despite themselves, they found it very attractive. “America is the big seducer, and of course, hated by the seduced,” he argues.

None of this implies that Germany is doomed to be anti-American forever. What it does mean is that whenever political events tilt the German mood in an anti-American direction, there is lots of raw material in the collective psyche that is ready for America-bashers to use.

Just as Germans feel quite a deep anti-American impulse, they also have a strong streak of the opposite sentiment—that very streak which is “seduced” by American dynamism and flexibility. In many of their tastes, Germans may well be the most American-oriented of all European nations. They love American music and films (not just Bush-bashing ones); and the United States remains the most popular destination for German tourists and academics. Even among German leftists and Greens, there has been much borrowing of ideas and styles from across the Atlantic. What, then, is prompting Germans to show their anti-American side and suppress the instincts that pull them in the other direction? Resentment of America's war in Iraq is one obvious answer. Another school of conventional wisdom notes that in a post-cold war world, Germans no longer feel obliged to suppress their doubts about American policy for the sake of solidarity against the Soviet threat. But there is a third, less obvious factor which is strongly felt now but may not last for ever.

As Mr Joffe and others have pointed out, many Germans are going through a phase of resentment over the pressure they feel to abandon the welfare state and accept *amerikanische Verhältnisse*—“American conditions”, in which the economy would be totally market-driven.

If that is the main thing turning Germans against America, there may be some light at the end of the tunnel. Resentment, and the search for scapegoats, is bound to be at its keenest in the early stages of economic reform, as the most difficult decisions are tackled. Once the painful structural changes now underway show signs of success, Germans may be more relaxed about their big, transatlantic brothers.

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Spain

Mourners feel mocked

Jul 29th 2004 | MADRID
From The Economist print edition

An inquiry into the Madrid bombing dashes people's hopes

AP

They deserve better

“FOR the sake of my mental hygiene...I hardly ever read newspapers.” Such was the unilluminating response offered by Eduardo Fungairiño, the chief prosecutor of Spain's highest court, when asked how much he knew, and when, about the parked van which—as the entire Spanish media reported hours after the attack—pointed clearly to the Islamist origin of the Madrid bombings of March 11th.

There was more rambling to follow: “Islamic terrorism was never a thing that attracted my personal attention, it always seemed a second-rate sort of terrorism...Arab names are hard to remember.” The prosecutor's burbling was fairly typical of the lamentable level of discussion at an inquiry into the March attacks, which killed 191 people.

As everyone accepts, any such probe was bound to be political. That is because three days after the bombing, the centre-right People's Party was voted out in favour of the Socialists—in part, at least, because of the electorate's rage at the old government's failure to recognise the bomb's Islamist roots, and at its hints that separatist Basques were to blame. But given the extreme gravity of the subject matter, some Spaniards hoped that that an official probe might rise above politics and ponder the safety of the nation. They were disappointed.

An obvious question is whether the former prime minister, José María Aznar, attempted to manipulate public opinion between the time of the bombs and the election by placing the blame on ETA, the Basque terrorist group. But what the investigation has shown, if it has shown anything at all, is the way in which Spain's security services were wholly unprepared for mega-terror—in part because they were, and are, hopelessly divided by inter-agency rivalry, and by political affiliation. The leadership of all Spain's security services changed after the election, and those who were on watch at the time of the March bombing are now frantically trying to protect Mr Aznar's reputation.

In one farcical session of the inquiry, Eduardo Blanco, a police chief, was escorted into a hearing by a gaggle of officials from the opposition. As for Jorge Dezcallar, the head of the Centre of National Intelligence at the time, he confessed he had been a “bit out of the game” in the days after the attacks.

Agustín Díaz de Mera, the former director-general of Spanish police, insisted that Mr Aznar had acted with “transparency” throughout—and that there is still a real possibility of a Basque connection. He was

not impressed by the fact that a tape with Koranic verses had been found in the van. After all, such a tape “could be found in anyone's car.”

In the face of such blustering in high places, it came as little surprise to learn recently that it took the police three months to find another car—also containing Koranic tapes, and also apparently used by the bombers—that was parked 20 metres from the first vehicle.

An opinion poll says 64% of Spanish people think their politicians have no interest in what really happened on March 11th. On this matter, the instinct of ordinary Spaniards, who impressed the world with the dignity of their mourning, seems wiser than that of politicians who are supposed to protect them.

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The economy

Boom, bust and hubris

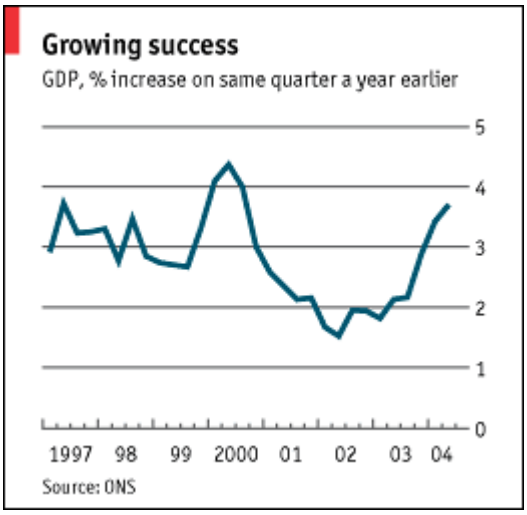
Jul 29th 2004
From The Economist print edition

Politics risks undermining Britain's economic success

Get article background

GORDON BROWN, Britain's chancellor of the exchequer, has recently developed a worrying tendency to boast about his economic record. It's the longest period of sustained growth in the past 200 years, he says, extolling the “British model” to other countries as an example of how to run an economy properly, with monetary and fiscal policy working together to achieve stability and growth.

The country has certainly coped with the buffeting of the recent world slowdown better than many other economies. National output kept on rising, quarter on quarter and year on year. Even the lowest calendar-year growth, in 2002, was a still-respectable 1.8% rise in GDP.



Economic policy undoubtedly helped to stave off a sharper downturn. The independent Bank of England cut interest rates promptly. The government's big spending programme ensured there was a big fiscal boost, with the public finances swinging heavily into deficit.

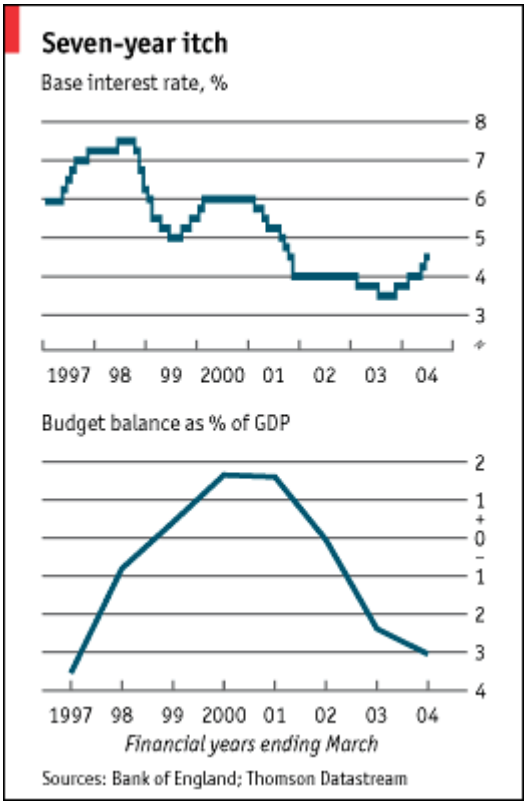
But every triumph has a price tag. The success in avoiding a recession meant that the economy built up little spare capacity during the slowdown. So this time, unlike in previous recoveries, there is less scope for a bout of rapid growth in which excess supply keeps inflation at bay.

That is why the latest economic figures will worry the Bank of England's monetary-policy committee (MPC) when it considers its next decision on interest rates on August 5th. GDP increased by 3.7% in the year to the second quarter. That was not just the fastest growth in almost four years, it was also well above the underlying economic growth rate of around 2.5%.

During the slowdown, the Bank sought to prop up consumer demand by lowering interest rates to a 48-year low, despite the risk of generating a housing-market bubble. That stimulus to consumption offset a shortfall in business investment and exports. During the recovery, the Bank has tried to rebalance the economy, encouraging consumers to take a breather, providing room for businesses to step up investment and for exporters to take advantage of the revival in world trade.

That was the flight plan. But the economy is following a more familiar trajectory. Despite hikes in the base interest rate from 3.5% at the start of November to 4.5% in June, consumers have lost none of their appetite for running up debt, especially through mortgages on their homes. Total household debt has now reached £1 trillion pounds ($1.8 trillion). June figures show no slowdown in consumer spending. The volume of retail sales jumped by 1.1% compared with May—much more than the 0.3% rise expected by the City. Sales are fully 7.2% higher than a year

ago.



Though there is no sign of a consumer slowdown in the high street, there have been some tentative signs that the housing market may be coming off the boil. The Royal Institution of Chartered Surveyors reported that house-price inflation slowed in June to its slowest pace for ten months. But this finding is contradicted by the latest figures from the Nationwide building society. These show that prices jumped by 2.1% in July, pushing the annual rate of house-price inflation up to 20.3%. The International Monetary Fund said earlier this year that house prices are 30-35% above their long-term underlying value.

Other components of demand are roaring ahead too. Businesses are starting to invest again after three years in which they lost their animal spirits. And the government remains a big spender as it strives to improve the public services. Total public spending will rise in real terms by 4% this financial year and will continue at this pace in the year to spring 2006.

In short: contrary to Mr Brown's claims, monetary and fiscal policy are no longer working together to achieve stability. Instead they are pulling in different directions. Fiscal policy remains highly expansionary: the budget deficit will remain around 3% of GDP this year and next. That's because, with an election looming in summer 2005, the chancellor has run scared of new tax increases.

This shifts the burden of reining in the economy to the Bank of England, which has to raise interest rates more than would otherwise be the case. The City expects the Bank to raise interest rates to 4.75% on August 5th. A hawkish speech on July 28th by Charles Bean, the Bank's chief economist, did nothing to dispel this expectation. The City thinks rates will rise again in the autumn to 5%.

Reliance on monetary tightening comes at a price. British interest rates are already much higher than in America and the euro area. That keeps the pound high and makes it harder to rebalance the economy towards exports.

More worrying still, the monetary squeeze will eventually stop the housing boom, and perhaps lead to the bubble bursting. Past experience in Britain and elsewhere says that a housing-market crash hits the economy hard.

Through a mixture of good judgment and good fortune, Mr Brown has managed to keep the economy on a fairly even keel in his seven years as chancellor. However, he is now presiding over what looks suspiciously like a pre-election boom, which raises the chances of a post-election bust. Not for the first time in Britain's post-war history, the electoral timetable threatens to undermine economic stability.

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Civil defence

Scare stories

Jul 29th 2004
From The Economist print edition

What are government warnings really doing?

RARELY does the British government speak directly to the citizenry. The last mailing to every household was about the millennium bug. “Preparing for Emergencies: What You Need to Know”, which will land on every British doormat in the next few weeks, is also rare for another reason: it is the first attempt to address fears of foreign threats since the much-ridiculed “Protect and Survive” pamphlet of 1980, which advised householders to whitewash their windows against radiation burns and explained how to build a bomb shelter.

Misunderstandings seem likely. The American government's pamphlet, “Be Ready”, prompted a run on duct tape and plastic sheeting as well as dismissive sniffs from worldly-wise folk like Michael Bloomberg, the mayor of New York. “Let's Look out for Australia”, which included a handy fridge magnet, was even more widely ridiculed. The fact that both documents appeared in February 2003, as the war in Iraq was looming, left many peace-minded people suspicious.

The British effort strains to avoid such charges of scaremongering. Where “Be Ready” tells Americans how to identify a nuclear blast, and the Australian pamphlet lists warning signs with irony-free earnestness (“while planning an attack, terrorists may lead lives that appear unusual or suspicious”), “Preparing for Emergencies” is calmness exemplified. It is “always useful” to have tinned food and bottled water to hand. But the pamphlet assumes that utilities, cash machines and mobile phones will still work much as before.

The main message is faith in government: in short, get inside a building and await instructions from a regime that has, presumably, not been blown to bits. This advice has been a staple of civil defence publications ever since the second world war, suggesting an enduring belief in the powers of officialdom. In 1958, a publication entitled “Home Defence and the Farmer” promised that agricultural bureaucrats would visit farms as soon as radioactive dust had stopped falling—in a few days, it was assumed.

That contrasts sharply with American advice, which is imbued with a pioneering spirit. After a catastrophe, the Department of Homeland Security explains, local officials “may or may not” be capable of communicating with citizens. Families must decide whether or not to get out, and should always keep half a tank of petrol in their cars. Any other message would probably be hooted down. Jay Baker of Florida State University, who studies responses to hurricanes, says that Americans are well prepared for disaster, and dislike officials who try to tell them where they can and cannot go. No propaganda, it seems, can allay such suspicions of government, or cure Britons of their clingy ways.

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Politics

New home, same old Tories

Jul 29th 2004
From The Economist print edition

A summer of discontent for the Conservatives

Get article background

THIS week the Conservative Party moved into shiny new offices situated above a Starbucks coffee shop in London's Victoria Street. Leaving the dank old Tory Central Office in Smith Square, the party's home for the past half-century, was meant to symbolise optimism and confidence, a break with the rancour and intrigue of the recent past.

Unfortunately, after two fairly dreadful weeks during which any faint hopes of electoral revival have been dashed, the timing could not have been unkinder. Subliminally, the message was that the Tories need more than a new building to change their fortunes.

Before jetting off to the Barbados home of Sir Cliff Richard, an elderly pop singer, the prime minister had appointed Peter Mandelson as Britain's new commissioner in Europe. Mr Mandelson, a brilliant strategist and close political ally of Tony Blair's, is also one of the most loathed characters in British politics. He has twice been forced to resign as a cabinet minister (the first time with good reason, the second somewhat unfairly). That Mr Blair felt confident enough to give his controversial chum such a plum job causing a by-election in Mr Mandelson's Hartlepool constituency, shows how little he fears the electoral threat from the Conservatives.

As if determined to prove Mr Blair right, the Tories have once again turned in on themselves. Michael Howard's ability to charm uncommitted voters has always been in doubt, but at least the Tory leader was credited with uniting his party and restoring its discipline. Even that claim now looks dubious.

Shadow ministers are once again bickering over whether the party should promise tax cuts or not. Other senior figures, some of them well past their prime, are at each other's throats over whether the party must urgently move to the right, which is where its supporters feel most comfortable, or to the centre, where elections are usually won. A supposedly important speech by the shadow chancellor, Oliver Letwin, was overshadowed because of a row over the alleged idleness of 30 or so senior MPs, described as “bedblockers”, whom their younger colleagues want to make way for more thrusting types like themselves.

Mr Howard's leadership has also come in for “muttering” criticism following both his wretched performance against Mr Blair in the Commons debate on the Butler report into intelligence failings and a poll which put the Tories neck-and-neck with the third party, the Liberal Democrats.

Still it is more of a rumble than a rumpus. Despite the familiar background wrangling over the party's direction and disappointment over Mr Howard's failure to make more of an impact, it is he who will lead the party into the next election. What's significant is that people are already preparing themselves for what happens afterwards.

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The Princess Diana memorial

The people's pestilence

Jul 29th 2004
From The Economist print edition

Trouble at a new paddling pool

Get article background

DIANAFICATION, a treacly, patronising populism that has little to do with the good works the late princess championed, does not mix well with science. While sentiment triumphed at the unveiling this month of a Diana memorial fountain in London's Hyde Park, science quickly took its revenge. First it blocked and flooded. Then visitors trampled the grass verges to mud. Finally three people fell and hurt themselves while paddling over the slippery granite.

It is now shut. The people who run London's parks are stuck with a large and costly object not of their choosing; the committee responsible for the fountain is nowhere to be seen.

Designed by Kathryn Gustafson, an American architect, at a cost of £3.6m ($6.6m), the memorial is an oval stone channel with a circumference of about 200 metres, set in a sloping, expensively landscaped site. Water whooshes through in an exciting and attractive way. But children, dogs, and scrofulous pigeons mean bugs aplenty. A water sample analysed for the *Sun* newspaper contained traces of *E. coli* and other nasties. The Dianaphiles who bottled water in the hope of some Lourdes-like effect may be in for a nasty surprise.

Another seemingly unforeseen glitch is algae, which makes stones slippery. Richard Batterbee, who works on such pond life at London's University College, says that water from the borehole that supplies the fountain is rich in nitrates, phosphates and silica, providing a nutritious diet for the little green menaces.

The authorities are now having the surface of the stone roughened and it is to be scrubbed clean every week. That will be laborious and expensive. Another proposal is to treat the water with chemicals. But that risks polluting the water in the Serpentine, the park's nearby (and expertly managed) lake.

The committee that planned the fountain featured the posh and the arty, not scientists or engineers. That was unwise. That nobody now seems willing to take the blame is disgraceful: for all her faults, Princess Diana hated bureaucratic buck-passing and muddle. As an experienced nursery teacher, she might also have spotted that children, fast-running water and slippery stone don't mix.

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Wind power

Ill winds

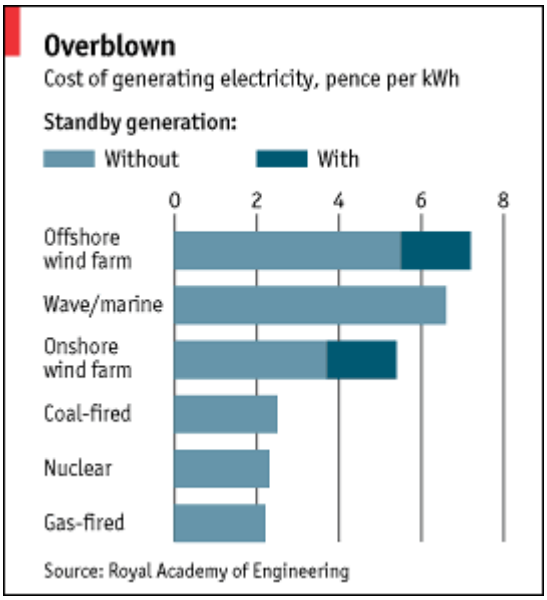
Jul 29th 2004
From The Economist print edition

Wind farms disfigure the countryside and threaten to cost £1 billion a year. Apart from that, they're great

FROM sacred cow to white elephant is a short jump. Wind power, once seen as the eco-friendly cure-all for Britain's energy problems, is attracting unprecedented criticism. The latest campaign, which unites veteran greens and the opposition Tories, opposes a proposed installation of 27 wind turbines next to Romney Marsh in Kent, a noted bird sanctuary and beauty spot. Hundreds more are planned elsewhere—many in beautiful bits of the countryside where some of Britain's richest people happen to live. A bunch of media-savvy local organisations is now lobbying hard to stop them.

The government remains unmoved. It calls wind power "the most proven green source of electricity generation" and cites Denmark as a role model. Renewables (mostly wind) account for 20% of electrical generation capacity there. Renewable energy is needed both to cut CO_2 emissions, promised under the Kyoto treaty, and to reach the government's own target of generating 10% of British electricity from renewable sources by 2010. The cost of this to the taxpayer is likely to be £1 billion a year by 2020.

But as well as Tories, toffs and country-lovers, many others think that wind power is seriously flawed. The first big problem is that it is too expensive. Although the British Wind Energy Association puts the cost of electricity from onshore wind farms at 2.5p per kilowatt-hour, only slightly more costly than other power sources, the Royal Academy of Engineering claims that on a more realistic view of construction costs it is much dearer: 3.7p when generated onshore and 5.5p offshore (see chart).



The government has tried to bridge this gap with tradable certificates. The wind-gatherers gain one of these for each megawatt-hour they generate. Power distribution companies then buy them as an alternative to paying the fines levied for failing to buy a set proportion (currently 4.9%) of renewable energy annually. But a recent House of Lords report noted a big snag: the nearer the industry gets to meeting the government's targets, the less the value of the certificates; once the target is passed, their worth falls abruptly to zero.

So the certificates, which will cost consumers a cool £500m this year and will be even more expensive next year, cap the supply of renewable energy instead of encouraging it. In effect, firms will buy only the minimum amount of renewable energy necessary to comply with the law.

Then there are the engineering problems. Too light a breeze means no power; too strong a gale and the turbines shut down to prevent damage. Even the wind-lovers expect that the farms will manage only 30% of their full capacity on average. Worse, that output can fluctuate rapidly—by up to 20% of the total national wind capacity in the space of a single hour, according to Hugh Sharman, an energy consultant, who has studied Denmark's wind industry. Furthermore, in a typical year like 2002, he says, there were 54 days when the air was so still that virtually no wind power was generated at all.

But whereas Denmark can import power from Norway and Germany to keep the lights on during calm periods, Britain's power grid is not set up for imports. So conventional coal-, oil- or gas-fired power stations would have to be kept running, ready to take up the load at short notice. That sharply raises the

real cost of wind energy and means extra CO_2 emissions.

Ministers may be right when they argue that wind power is the only renewable energy source that has even a theoretical chance of meeting the government's targets. Given the costs and technical uncertainties, perhaps it would be better to abandon those targets altogether.

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Defence procurement

Lions equipped by donkeys

Jul 29th 2004
From The Economist print edition

Britain's military bureaucrats are still wasting money

OF ALL the plucky underdogs celebrated in British mythology, few are more cherished than the brave soldier let down by knuckle-headed civilians. So it was to general and satisfying dismay on July 28th that a parliamentary committee reported on the defence ministry's habitual inability to supply its troops well. The committee called the ministry's procurement record “woeful”. Last year, its outstanding orders went over budget by £3.1 billion, even as they slipped an average 18 months behind schedule.

These failings are neither new nor markedly worse than in other rich countries. Part of the problem is that governments change their minds about what new weapons they need to suit the changing circumstances of war. The much-delayed Eurofighter, for example, was designed to shoot Soviet fighters from the sky, but is now being redesigned to strafe terrorists and insurgents. Weapons-makers are also to blame, for overestimating their expertise in the fight to win contracts.

What is new is that in the first flush of office, the government vowed to fix the problem; it also asked McKinsey, a consultancy, to tell it what to do. The result was Smart Acquisition, an intricate series of reforms to cut bureaucracy and increase competition, introduced six years ago. Or rather, the ministry said it had introduced them: according to the committee's report, only one of Smart Acquisition's seven key principles has been implemented in full. It blamed this partly on a “fear culture”, which made bureaucrats reluctant to embrace change or admit to failings.

Apparently, other features of the bureaucratic landscape are also expertly camouflaged: in its most damning sentence, the committee said it had found nothing to back the government's claim to have saved £2 billion through Smart Acquisition.

Seeking to parry the blow, Lord Bach, the minister responsible, assured *The Economist* that the defence industry was also culpable, and pointed to a few shreds of hope. Recent orders are in better shape than cold-war hangovers such as the Eurofighter. Admirable pains are being taken to assess designs for two putative new aircraft carriers before contracts are issued. Some relatively minor pieces of kit have been delivered to cost and on time. But the government will struggle to convince the nation: even dearer to Britons than plucky underdogs are politicians and bureaucrats getting a well-deserved toasting.

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Sports cars

Shiny toys

Jul 29th 2004
From The Economist print edition

A Blackpool-based sports-car firm has a new Russian owner

NIKOLAI SMOLENSKY is not the first rich Russian to want to own a piece of old England. Some of the grandest houses in London are in Russian hands, while Chelsea Football Club became the plaything of Roman Abramovich a year ago. But for sheer wackiness, the purchase for £15m of TVR, Britain's biggest independent sports-car maker, by Mr Smolensky, one of Russia's youngest millionaires, takes some beating.

Small sports-car firms are a British speciality. Some, such as Aston Martin and Lotus, lost their independence to the likes of Ford and General Motors, but many others continue to be fiercely independent. Among the more successful are Morgan, whose 1930s-style roadsters are still made with wooden frames, and Noble, a relative newcomer whose sophisticated cars boast the performance of a Ferrari for half the price.

Reuters

Ideal getaway car for Russian tycoon

But none are more individualistic than Blackpool-based TVR, whose 400-odd workers each year hand-build more than a thousand terrifyingly fast, implausibly beautiful cars. Unlike other comparable carmakers, TVR makes everything in-house, from its noisy, hugely powerful engines to the carefully crafted knobs and dials that adorn the cars' uniquely styled dashboards.

That do-it-ourselves approach is one part of the philosophy of TVR's boss for the last 23 years, Peter Wheeler. Another is that he despises the mainstream industry's politically correct obsession with safety. TVRS are very strong, but despite a top speed of nearly 200mph, none has airbags, anti-lock brakes or traction control. Mr Wheeler, who once drew the design of a new car on the back of a cigarette packet, thinks they detract from the driving experience.

Mr Smolensky's wealth, like his private education in England, comes thanks to his father, Alexander, who has a fair claim to be Russia's least popular tycoon—a striking achievement, given the demanding standards of that contest. Humble Russian depositors who lost money when the assets of Mr Smolensky senior's bank, SBS-Agro, mysteriously vanished in 1998 may wonder how far they have financed his son's love of very expensive speed.

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National Health Service

Uncharted waters

Jul 29th 2004
From The Economist print edition

A new payment system in the NHS: innovative, but risky

Get article background

AMONG the many reforms that the government is making to the National Health Service, the introduction of a new payments system for hospitals is the most far-reaching. A report on July 27th from the Audit Commission, which scrutinises the public services' books, says that the new regime carries substantial risks.

At present, most of the trusts that run hospitals are mainly paid according to what they spent in the past, with a bit extra for likely increases in costs. Their income is not directly based on the amount of work that they actually carry out. This means that they have little financial incentive to do more work.

Next year, all this will change. All trusts running acute hospitals will be paid by results. Each patient will bring a set fee, varying according to the medical condition and procedures involved. So hospitals that do more will gain extra cash. They will have until 2008 to adjust to the new prices.

The new system, which already operates in other countries, is a vital element in the government's reform programme for the NHS. First, it is likely to boost hospital activity, which is vital if the government is to meet its new target for cutting the maximum all-in waiting time for an elective operation to 18 weeks by 2008. Second, since money will follow the patient, it underpins the objective of giving people choice over where they get their treatment.

That sounds fine, but the Audit Commission has two big worries. One is about information. In half of the trusts running acute hospitals, there were serious flaws in the way they counted costs, chiefly in recording the amount of activity. That's a real problem if you're paying by results.

The second concern is about the financial risk to the locally based primary-care trusts which commission and pay for hospital work. It points out that these will exercise only weak control over the 50% of their budgets that they spend on acute care. At worst, they might run out of cash if there is an unexpected rise in hospital treatments.

Such an outcome seems unlikely: no government would stand by and let people be denied health treatment because a primary-care trust got its sums wrong. In fact, the danger is elsewhere. Historically, NHS spending has been tightly controlled. Now the controls are being lifted. The real risk from the new payments system will be borne by the taxpayer.

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Business in Germany and France

Europe's workplace revolution

Jul 29th 2004 | FRANKFURT AND PARIS
From The Economist print edition

AP

Despite their protests, Germany's workers are starting to accept that they may have to work longer hours. Will their French counterparts be next?

Get article background

“A VICTORY for common sense,” was how Germany's chancellor, Gerhard Schröder, greeted DaimlerChrysler's deal last week with employees at the Mercedes car plants in southern Germany. Workers agreed to receive lower pay in future, with longer working hours for some, in return for keeping their jobs until 2012. Because of union-led industrial action, this was not quite what Daimler had sought—a move to a 40-hour week, which Siemens, another big company, had won shortly before. Nonetheless, it was indeed further significant evidence of an outbreak of common sense among German workers. And about time too. German firms desperately need some labour market flexibility if their domestic operations are to remain at all competitive.

Germany's standard 35-hour working week—compared with Britain's 37 hours and America's 40—is the result of negotiations; France's is statutory. Yet France, too, is all a-buzz about the possibility of firms demanding longer hours from workers. Symptomatic of the heightened sensitivity, this week Electricité de France summoned one employee to a disciplinary hearing after she wrote “Bonjour Paresse”, a book celebrating corporate laziness. A feverish debate has been triggered by the French government's declared intention to reconsider the 35-hour-week law soon, as well as by this month's vote by almost all 820 workers at a factory in France of Robert Bosch, a German maker of car parts, to work an extra hour per week for no extra pay so that Bosch does not move their jobs to the Czech Republic.

Is this the moment that the famously inflexible, worker-friendly continental European model of capitalism finally grasps the nettle of reform? Though the rhetoric of the trade unions is as shrill as ever, the attitude of workers has certainly started to change in Germany, even if it is not yet clear by how much. What is going on in France is more difficult to determine.

Work, work, work

The response in Germany to the deals at Daimler and Siemens has been overwhelmingly positive. (Siemens persuaded its employees to increase their working week from 35 to as much as 40 hours without more pay by promising not to relocate to Hungary.) One rare dissent came from Heiner Flassbeck, chief economist at the United Nations Conference on Trade and Development, who claimed that the deals cut pay but did not raise productivity. More typically, Holger Schmieding, an economist at Bank of America, called the deals “pure capitalism”. Dirk Schumacher, an economist at Goldman Sachs, attributes a small rise in the expectations part of the Ifo business-confidence index in July to the “glimmer of hope that German labour is getting more competitive”.

Other German firms have been inspired to seek similar deals. KarstadtQuelle, a department store and mail order chain, aims to stretch its work week to 40 hours; so do Continental, a tyre maker, and Thomas Cook, a travel agent. Numerous mid-sized companies are revisiting their labour agreements.

Officially, however, Germany's big unions remain opposed to breaking the 35-hour-week barrier. IG Metall attributes the victory of Siemens to “blackmail”. Workers' representatives at MAN, an engineering group in Augsburg, have warned that the workforce will take action, as the Mercedes workers did with some modest success, against the introduction of a 40-hour week. But the big test of whether there is any bite left to back up the union bark will come in September, when troubled carmaker Volkswagen will seek to negotiate a 30% cut in its personnel costs in Germany.

VW already has some flexible working hours, although the weekly average does not exceed 35 hours. It has also experimented since last year with performance-based working hours. For over a year, workers producing Touran minivans have been paid according to performance, based on a 42-hour week. The project, “Auto 5000”, has drawn its workforce from the unemployed, and pays below the union average wage. VW will not be drawn on whether it sees this as the shape of working hours to come—and IG Metall says it is determined not to accept a clear breach of the 35-hour week. The outcome of these negotiations will say much about where corporate Germany is headed.

Meanwhile, in France, the unions have taken their German counterparts' talk of blackmail further, one union leader calling Bosch's threat to move abroad jobs at its factory near Lyon as “terrorism”. They have also been feeding the press with accusations that various French firms plan to follow Bosch in increasing working hours.

Each of the firms named denies having any such plans. These include Doux, Europe's biggest chicken abattoir, headquartered in Brittany; SEB, Europe's largest maker of small household equipment; and Carrefour, Europe's biggest retailer. SEB says it is only talking with unions about increasing the work week at a factory in the Vosges region from 32 to 35 hours—not introducing a 38-hour week, as reports suggested. In 2000 SEB had introduced the 35-hour week at all its factories except the Vosges site. Carrefour says it has no plans to challenge the 35-hour week, despite reports to the contrary—and points out that it was among the first firms to introduce the 35-hour week and pays workers more than its competitors. Indeed, the contrast between the bold German firms, willing to take on their unions, and their timid French counterparts is striking. So far, despite legal changes in January 2003 that gave them room for manoeuvre, no big French firm has yet dared to challenge the sacrosanct 35-hour week.

Why the big difference, if all is as it appears, between French and German willingness to countenance reform? The German economy is in worse shape than the French, so the need to reform is more urgent. Proximity may have made German workers more aware of the credible threat of jobs going to central and eastern Europe. Many German companies have already relocated some activities and are planning to relocate some more. Bosch already employs 7,400 people in the Czech Republic, where German is widely spoken.

And the relationship between unions and bosses in Germany is traditionally consensual, emphasising that both sides are “social partners”, whereas in France, despite a smaller proportion of the workforce being unionised, it has tended to be highly confrontational. The French unions seem to mean it when they describe plans to tamper with the 35-hour week as the “revenge of the bosses”, whereas the German unions have been willing to strike deals with individual firms provided they are not forced to abandon their rhetorical commitment to the 35-hour week.

So perhaps, somewhere beneath the fiery rhetoric and demonstrations, Germany's bosses and workers have reached an unstated consensus that longer working hours, and greater flexibility, are necessary if the country is to regain its competitive edge. And perhaps it will take a more competitive Germany, thanks to the reforms now under way, to prompt a similar epiphany among the French.

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Business in Russia

The last days of Yukos

Jul 29th 2004 | MOSCOW
From The Economist print edition

The destruction of Yukos is nearly complete

EPA

Another hard day at the office

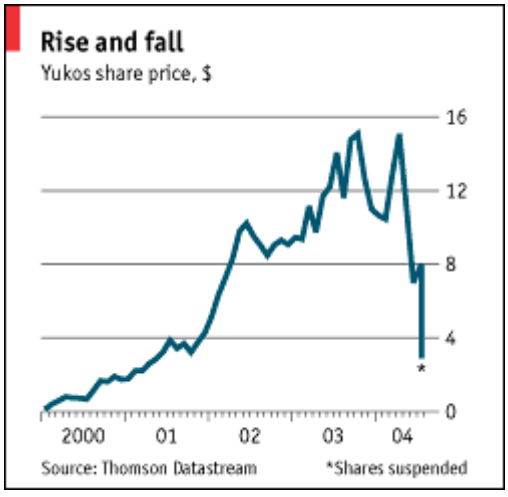
Get article background

OUTRIGHT expropriation is ugly. It scares investors. But it would have been less ugly and less scary than the deliberate dismemberment of one of Russia's best-run firms behind a paper-thin veil of legal due process. Two weeks ago many businessmen in Russia still hoped for a deal between Yukos and the government. They now glumly accept that the embattled oil firm's likeliest fate is to be broken up and at least partly sold off—ostensibly to cover tax bills, but really as a way to put some of Russia's choicest oil-producing assets in state hands for next to nothing. “I told you so,” say those who claimed that was the plan all along.

What convinced the rest was the announcement earlier this month that Yuganskneftegaz, Yukos's main production subsidiary, would be sold to cover a $3.4 billion claim for back taxes for the year 2000. Having given Yukos virtually no time to pay, the government not only ignored its attempts to negotiate a payment schedule and an offer by its on-trial ex-boss Mikhail Khodorkovsky (pictured) to sell his stake to cover the debt: it chose to bite off the biggest, most efficient chunk of Yukos. Yuganskneftegaz is worth $30 billion, reckons the firm, and even in a heavily discounted quick auction it should fetch $12 billion-14 billion, more than all possible back tax claims combined.

Some hardy optimists had still hoped for a fair auction, open to all. But officials have not even bothered to claim that there will be one. And this week's naming of Igor Sechin, one of President Vladimir Putin's closest advisers, as chairman of the state oil firm, Rosneft, sent an unmistakable signal. “[This] presents the government with the perfect opportunity to catapult Rosneft from a mid-ranking oil producer to one of the world's major producers,” wrote Chris Weafer at Alfa Bank in Moscow.

Then came the coup de grace. This week, courts ordered that all the assets of Yukos's three production subsidiaries be frozen. The firm said that this meant it would have to stop pumping oil, a statement that panicked the oil markets into driving up world oil prices to a new high of $43 a barrel. Russian officials denied that the ruling meant that production should stop. There were suggestions that Yukos was scaremongering in a bid to embarrass the government (surely impossible) into doing a deal. Whatever the truth, the incident wiped out the little remaining value Yukos had on the stock market—which may now provide a perfect excuse to sell it for peanuts to the only firm willing to buy.



In the teeth of this assault, good news has continued to trickle out about Russian business. Germany's Siemens announced a joint venture with Russia's Interros for control of Power Machines, the country's biggest industrial machinery firm. The government put its remaining small stake in Lukoil, another oil firm, up for sale; America's ConocoPhillips is expected to buy it. France's BNP Paribas is buying 50% of a unit of Russian Standard Group, which controls one of Russia's top private banks. Such firms still seem to view Yukos's problems as something that only Yukos will face. But the ferocity of its destruction has shocked even the

most bullish of Moscow's foreign investment analysts. And among the business elites the question still echoes: “Who might be next?”

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Online music

A big week for Apple

Jul 29th 2004 | SAN FRANCISCO
From The Economist print edition

Invited or not, almost everybody wants to play with the iPod

AFP

IPod, you pod, they pod

Get article background

BUYING music online is today roughly where personal computers were in the mid-1980s: on the verge of spreading from early adopters to the general population. And, as in the 1980s, Apple, then as now run by Steve Jobs, is in the lead. Apple's iTunes service has 70% of the market for legal downloads of music; the iPod, its near-iconic portable audio player, has about 60% of the American market for high capacity, hard-disk-based players. "Apple is beginning to establish itself as the de facto standard in digital music," says Steven Milunovich, an analyst at Merrill Lynch.

Such dominance is attractive. This week, Motorola said that, starting next year, its mobile-phone handsets will carry iTunes. This is good for Apple: the handsets will be able to store a dozen or so songs, whereas iPods carry thousands. So, probably, millions of Motorola users, especially the younger ones, will eventually want to trade up to the real thing.

The iPod also received a more mixed endorsement this week. RealNetworks, best known for its RealPlayer software, is also the pioneer of what Rob Glaser, its boss, calls "all-you-can-eat music" through its Rhapsody service. As easy to use as iTunes, it differs in that users need not buy songs but can rent unlimited access to a huge music library for about $10 a month. Mr Glaser's challenge was to make Rhapsody's music portable. So he asked Mr Jobs for technology to let Rhapsody users download songs on to iPods. Mr Jobs refused. This week Mr Glaser said that his firm had cracked Apple's technology and that Rhapsody users can use iPods after all.

This ought to be good for Apple, which makes its money from iPods, not iTunes (which barely breaks even). Mr Glaser denies any "reverse engineering". Yet Apple may decide to sue Real. What on earth is Mr Jobs up to?

In the 1980s, his crucial mistake was not to licence Apple's superior computer-operating system to other hardware makers—as Microsoft did with its clunkier DOS and then Windows, ultimately becoming a virtual monopoly. This time, Mr Jobs wants to get it right. He is, for example, letting Hewlett-Packard sell HP-branded iPods and PCs with iTunes pre-installed.

But his cold shoulder to Mr Glaser suggests that Mr Jobs is reluctant to make Apple's technology—its music format and copyright coding—an open standard. A proprietary strategy will be the most lucrative one if Apple can stay dominant (as Microsoft has with Windows), but runs the risk that rivals will topple it. Apple's old nemesis, Microsoft, is gearing up to do just that, with its own music service and copyright technology, code-named Janus, due out this autumn. For consumers, moreover, closed formats are inconvenient. Everybody who once bought records, only to buy the same music again on CD, will be wary of buying online without knowing that what is bought can play anywhere.

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Google

Not for the froogle

Jul 29th 2004 | SAN FRANCISCO
From The Economist print edition

Google expects a high price for its shares

IT IS the world's most popular search engine. It also happens to be the first company confident enough, or silly enough, to promise in the paperwork for an initial public offering (IPO) of its shares “not to be evil”. Clearly, Google is not accustomed to embarrassment or criticism. So it must have felt rather uncomfortable that many users of its site on July 26th—the very day that Google announced the expected price range for its IPO—got an error message. Google, it turned out, had been overloaded by the MyDoom internet virus.

The griping did not stop there. Google has been promising to democratise the IPO process. By this it means denying investment banks' most-valued customers the windfall they normally get from the deliberate underpricing of shares allocated to them in an IPO, so that the price jumps on the first day of trading. Instead, Google will let investors, including small ones, participate in an online Dutch auction (at ipo.google.com). Google will then determine the IPO price to match supply and demand. Oddly, however, its egalitarian instincts are not preventing Google's management from going on a traditional road show for the next two weeks to schmooze big institutional investors.

Google expects a price between $108 and $135 a share, it said this week. That struck many as a bit rich, literally. A price per share as high as that seems odd for a company that claims to like small investors. And it implies that Google is worth some $36 billion, just shy of the value of Yahoo!, a rival with a longer, better track record. With both Yahoo! and mighty Microsoft as competitors, Google faces a challenge meeting the expectations contained in a price that is equivalent to some 187-times current profits. Indeed, that huge multiple has revived memories of the bubble days—at a time when investors are becoming nervous again about tech firms. Google's choice of stockmarket, NASDAQ, is down by 7% so far this year.

Then there is the matter of corporate governance. After the IPO, the founders, Sergey Brin and Larry Page, and chief executive Eric Schmidt will own 38% of Google's shares but retain 60% of the voting power. It is just as well they have promised not to be evil, for Google's shareholders will need all the benevolence from their dictators they can get.

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Nanotechnology

A Netscape moment?

Jul 29th 2004
From The Economist print edition

Will Nanosys's IPO usher in a nanotechnology boom?

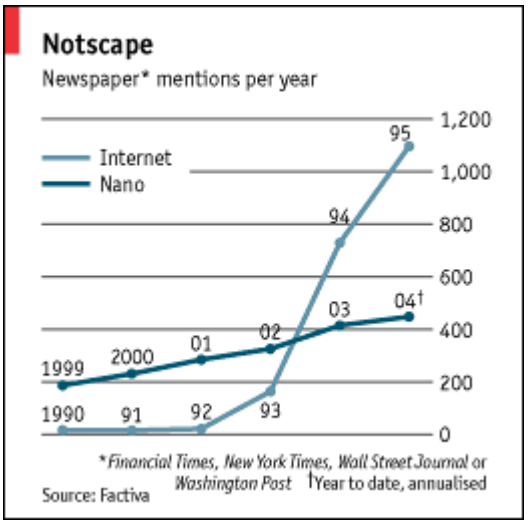
Get article background

FOR many in the computer industry, the excitement of Google's impending initial public offering (IPO) brings back memories of Netscape's flotation, in August 1995, which began the internet boom. Those in the fledgling nanotechnology industry—which involves engineering tiny structures and materials at the atomic scale—are also recalling the heady days of nine years ago, but for a different reason. Nanosys, a highly regarded nanotech startup that filed for its IPO in April and could go public as early as next week, is now being touted as the "Netscape of nanotech", whose flotation will trigger many "me too" IPOs. Is the comparison valid?

"Nanosys is being watched by more than the usual very small nano investing community," says Steve Crosby of Small Times Media, a firm that tracks the nanotech industry. Since nanotech is so complicated, he says, it is hard for investors to spot good prospects. But Nanosys has a top-notch team of researchers, an impressive list of partners, and a credible bunch of early-stage investors. And its technology can be applied in many fields, from electronics to medicine. Most other nanotech start-ups are focused on specific areas, though nobody knows where, if anywhere, nanotech will prove most useful. Finally, says Mr Crosby, Nanosys's novel approach, while still unproven, means the firm is less likely to get caught up in the developing nanotechnology patent war.

According to Josh Wolfe of Lux Capital, one of the investors in Nanosys, the growing interest in nanotech today mirrors the early stages of internet fever in the 1990s. In 2002, he looked at the growing press coverage of nanotech and concluded that a "Netscape-like IPO" would take place in 2004. Though he cannot say so directly without incurring the wrath of the Securities and Exchange Commission (SEC), the implication is that the Nanosys flotation will fulfil his prophecy.

Yet back in 1995, Netscape's web browser had 10m-15m users, and the firm had its first profitable quarter just after the IPO. Nanosys, in contrast, has yet to produce a single product. Most of its $3.1m in revenue last year came from government research contracts. Even so, when it priced its shares this month, the firm valued itself at around $350m. Its SEC filings might also give investors pause: "We do not anticipate that our first products will be commercially available for at least several years, if at all...We have a history of net losses, we expect to continue to incur net losses in the foreseeable future, and may never achieve profitability." (Just like a dotcom, then.)



Nor does Mr Wolfe's analysis of press coverage seem to hold water. Interest is certainly growing in nanotech, but it has yet to reach a "tipping point", as the internet did in 1994-95 (see chart). And much of the press coverage of nanotechnology is, in any case, cautious speculation. Nanotechnology's Netscape moment, it seems, may still be some way off.

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Pharmaceuticals

Unconventional medicine

Jul 29th 2004
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Boundaries are blurring between branded and generic drugmakers

Get article background

AMERICA'S bustling market for pharmaceuticals can give the hardiest firm a headache. No wonder Mylan, the second-largest generic-drug firm in America, has opted for a spot of complementary medicine. On July 26th, the firm said it would acquire King Pharmaceuticals, another American drug company, for $4 billion.

Mylan is seeking relief from growing threats to its core business of copying drugs that go “off patent”. Americans will buy an estimated $13.6 billion-worth of such generic drugs this year, up by 9% from 2003, says Ian Sanderson of SG Cowen, an investment bank. But the business, he adds, is getting tougher and growth will slow, largely because legal battles with big drug firms are delaying the launch of new generic products. As a result, generic firms are starting to cut prices to maintain their market shares.

In America, most of the money to be made from generics comes in the first six months after a drug's patent expires—when only one generic firm is allowed to manufacture it. Within a year, half a dozen (or more) firms may be churning out similar pills and prices can fall by 80%. At that point, generic firms with the lowest costs are the best-placed to make money, and this increasingly means foreign competitors, notably Indian firms.

Moreover, big drug firms are finding new ways to frustrate their generic rivals. This week GSK, the world's second-largest drug firm, announced poor half-year results as generic competition knocked £779m ($1.4 billion) off sales of its two blockbusters, Paxil and Wellbutrin, compared with the same period last year. But the firm clawed back almost half of that, largely by selling its own newer versions of the drugs, but also through deals with two American generic drugmakers, Watson Pharmaceuticals and Par Pharmaceuticals, to produce “authorised generics” that compete with GSK's main generic rivals in that crucial first six months.

While the deal provides GSK with some modest revenue, the bigger effect, says Neal Hansen of Datamonitor, a research firm, is to deter other generic challengers by giving them a taste of their own medicine. Robert Coury, chief executive of Mylan, says that authorised generics damage his industry and mislead consumers. But America's Food and Drug Administration disagrees. Earlier this month, it rejected petitions from Mylan and others to prohibit such drugs, saying they increase competition and promote lower prices.

By taking on King Pharmaceuticals, which is in the business of buying and then marketing branded drugs from other firms, Mylan is trying to diversify beyond everyday generics. The firm has already developed a novel drug, called Nebivolol, for high blood pressure, which it hopes will benefit from King's sales clout. But many observers question the wisdom and the price of the deal. King's existing drugs face fierce competition from generics. Finding new products is becoming trickier as big pharmaceutical firms, with their own sluggish pipelines, are starting to compete for even the wallflowers of the industry.

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Beer mergers

Family brew

Jul 29th 2004 | LONDON AND MONTREAL
From The Economist print edition

Bad blood gets in the way of a Molson and Coors merger

FEW family firms survive more than three generations before being torn apart, usually by rifts over succession. Family-run brewers often do better—perhaps it owes something to their product. But this week, the bosses of two of North America's biggest brewers, Canada's Molson and America's Adolph Coors, were busy telling investors why their family firms had to merge and urging them to ignore a dissident from the Molson dynasty.

Ian Molson resigned as deputy chairman of Molson in June, reportedly after being blocked in his ambition to succeed his distant cousin, Eric Molson, as chairman of the 218-year-old Montreal-based firm. He has since been discussing with financiers the launching of a rival $4 billion bid, possibly with the help of other brewers, such as the Dutch group Heineken.

Molson has over 40% of Canada's beer market. But it is under fierce attack from Labatt, a brewer now owned by Belgium's Interbrew. And it has struggled abroad. Its second-biggest market is Brazil, where two years ago it bought an 80% stake in Cervejarias Kaiser—which has been losing market share and draining Molson's profits.

According to Eric Molson, chairman of the firm since 1986, the “strategically compelling merger” with Coors would produce annual savings of $175m a year by 2007 and a cellar-full of brands. Like Molson, Coors family members still own a big chunk of their firm, founded in 1873 and now the third-largest brewer in America. Its British subsidiary includes the Carling, Grolsch and Worthington's brands. Eric Molson would be chairman, and Leo Kiely, now chief executive of Coors, the chief executive of the combined firm.

The two brewers say they must grow to compete against the giant brewers that have been gulping down competitors as they spread their brands around the globe. America's Anheuser-Busch, the world's biggest brewer by volume, recently saw off the second biggest, the London-based SABMiller, in a fight for Harbin Brewery in China, now the world's biggest beer market by volume. SABMiller was formed when South African Breweries bought America's Miller Brewing for $5.6 billion in 2002. The merger of Molson and Coors would rank the combined group fifth, after Interbrew and Heineken. Interbrew, however, is set to move into the top slot later this year when it completes an alliance with Brazil's biggest brewer, AmBev.

Some analysts question whether there are real benefits to be gained from a Molson-Coors merger, apart from leaving the combined firm largely under the two founding families. The two firms already work closely with one another: Molson brews and sells Coors products in Canada, an arrangement which Mr Kiely says would probably end if shareholders supported a rival offer.

As *The Economist* went to press, Ian Molson had still to make a definite offer. The 49-year-old former investment banker joined Molson in 1996 to help it dispose of some disastrous diversifications. He controls about 10% of the voting shares. But the biggest obstacle he faces is Eric Molson, who controls a majority of the voting shares. Still, with the prospect of some cash on the table, some analysts think that Ian Molson might muster the votes of enough family and outside shareholders to at least block the deal with Coors.

Rival brewers are watching closely. Some might quietly raise a glass to their own, so far, relatively quiet family affairs. Even the giant Anheuser-Busch still has members of its founding family on the board. And both Heineken and Interbrew are still family-controlled. In fact, the latter firm makes Molson look like a youngster. It can trace its brewing roots back to 1366.

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Construction

A Greek lesson

Jul 29th 2004
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Europe's bridge-builders are booming

AP

But there's no there there

ZEUS willing, the bridge will open on August 12th, a day before the Athens Olympics begin, and four months ahead of the original schedule. Yes, ahead. And within its €770m ($930m) budget, claims Gefyra, the French-Greek company that has built the Rion-Antirion bridge across the 3km (2 mile) narrows at the western end of the Gulf of Corinth (pictured).

Europe has recently been building spectacular bridges as eagerly as America once did: Britain's second Severn bridge was completed in 1996; Portugal's second Tagus one in 1998; Denmark's island-hopping Storebaelt East bridge in 1998, with a 1.6km main span, at the time the longest ever; the Oresund bridge joining Denmark and Sweden in 2000. More are to come: recently aired, a new down-river Thames crossing; and, on paper since 2002, the mother of all bridges, a 3.3km suspension bridge which, from 2011—supposedly—will join Sicily to the Italian mainland.

The French are no laggards: on completion in 1995, the Pont de Normandie, linking Le Havre to the south bank of the Seine, was the world's longest cable-stayed bridge. The Millau motorway viaduct now nearing completion across a valley in southern France has the highest supporting piers in the world.

All this bridge-building is good news for the contractors. France has two of Europe's big four construction firms: Vinci, lead partner in the new Greek bridge (as earlier in the Tagus one), and Bouygues. With Skanska, leader of the Oresund consortium, and Germany's Hochtief, these are a formidable quartet. By turnover, reckons *International Construction* magazine, Vinci and Skanska lead the world, and all four are in the top eight, with three firms from Japan (ever addicted to costly public works) and, perhaps surprisingly, only Bechtel from America.

European Union finance is one reason for this unlikely European leadership. EU funds go into many construction projects in poorer regions, even in rich countries. The European Investment Bank, for instance, is financing 47% of the Rion-Antirion bridge. And most EU money goes (surprise, surprise) to EU firms.

Under EU rules, all public-works contracts must be open to all EU firms equally. Yet visible prestige symbols such as giant bridges usually go to local firms or locally led consortia. That was true of the two French projects cited above. It will probably be true of the bridge to Sicily. Two Italian-led consortia were the leading challengers when, shortly before the bid-qualification period was due to close in mid-July, it was surprisingly extended to mid-September—apparently to let a third Italian-led consortium get its act together.

Britain is slightly less addicted to this habit. The 1996 Severn bridge was partly Vinci-built, and three of Europe's big four have played leading roles in the high-speed rail link to the Channel; Hochtief is to dig a tunnel under the Thames for this.

Outside contractors can and do compete in EU countries. Bechtel is involved both in the Channel link and in London's Underground. (Recently, to EU fury, it got a huge contract, with no competitive bidding process, in would-be EU member Romania, for a motorway, to be financed partly by America's

Eximbank.) But Europe's firms too can prosper farther afield. Skanska is building what will be America's longest cable-stayed bridge, across the Cooper river, near Charleston.

Spending a fortune on such giant projects may be great for the construction industry. Whether it is a good use of taxpayers' money is less clear. Britain's Humber bridge, completed in 1981, and now used by 17,000 vehicles a day, was clearly uneconomic. Even the Oresund bridge, which made better economic sense, averages only 12,500 vehicles a day, less than forecast. The Sicilian bridge—if anyone can be found to finance it—may be a white elephant. And Greece's new bridge, for all the century of dreams that has gone into it, looks a fine example of linking nowhere much to nowhere at all. The sponsors expect 11,000 vehicles a day—only 1,000 more than now go by ferry.

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Face value

A different sort of oligarch

Jul 29th 2004
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Reuters

Having got rich in Russia, Kakha Bendukidze now wants to be the world's most capitalistic politician

FORGET eBay. If you want to buy a dysfunctional boiler house, an international airport, a tea plantation, an oil terminal, a proctology clinic, a vineyard, a telephone company, a film studio, a lost-property office or a beekeepers' regulatory board, then call Kakha Bendukidze, Georgia's new economy minister. His privatisation drive has made him a keen seller of all the above. And for the right price he will throw in the Tbilisi State Concert Hall and the Georgian National Mint as well.

Mr Bendukidze made his name and fortune as an industrialist in neighbouring Russia, putting together the country's biggest heavy-engineering group, OMZ, before returning to his native Georgia in June of this year with a mandate to reverse more than a decade of post-Soviet decay. He insists that he was taken by surprise when Georgia's president, Mikhail Saakashvili, and prime minister, Zurab Zhvania, nobbled him for a chat in the course of a private visit he made to Tbilisi in May, and then offered him a ministerial job the same evening. But having said yes, he is cracking ahead, doing everything that businessmen must dream of making governments do. He says that Georgia should be ready to sell "everything that can be sold, except its conscience". And that is just the start.

Next year—if not sooner—he will cut the rate of income tax from 20% to 12%, payroll taxes from 33% to 20%, value-added tax from 20% to 18%, and abolish 12 kinds of tax altogether. He wants to let leading foreign banks and insurers open branches freely. He wants to abolish laws on legal tender, so that investors can use whatever currency they want. He hates foreign aid—it "destroys your ability to do things for yourself," he says—though he concedes that political realities will oblige him to accept it for at least the next three years or so.

As to where investors should put their money, "I don't know and I don't care," he says, and continues: "I have shut down the department of industrial policy. I am shutting down the national investment agency. I don't want the national innovation agency." Oh yes, and he plans to shut down the country's anti-monopoly agency too. "If somebody thinks his rights are being infringed he can go to the courts, not to the ministry." He plans, as his crowning achievement, to abolish his own ministry in 2007. "In a normal country, you don't need a ministry of the economy," he says. "And in three years we can make the backbone of a normal country."

Good luck, and he will need it. Mr Saakashvili's new government has taken over a country where half the

population lives on less than $2 a day, relations with Russia are tense, and rebel regimes control two provinces. The previous president, Edward Shevardnadze, a former Soviet foreign minister, was driven out in November by huge public demonstrations against election-rigging and corruption.

Mr Bendukidze is the second minister plucked from the Georgian diaspora. The first, the French-born Salome Zourabichvili, was France's ambassador to Georgia until Mr Saakashvili made her his foreign minister. She wants to build political ties with the West, in order to help Georgia to fend off fresh attempts at domination by Russia. Yet at the same time, Georgia needs investment from Russia's booming corporate sector—and here Mr Bendukidze's experience should come in useful. Until May he was a prominent figure in the circle of top Russian tycoons known as the “oligarchs”, albeit a notch below the oil barons, such as the now-imprisoned Mikhail Khodorkovsky of Yukos and the soccer-mad Roman Abramovich of Sibneft and Chelsea Football Club.

A clever and likeable man, aged 48, Mr Bendukidze was a scientist until the Soviet Union collapsed, and never did seem to be one of nature's metal-bashers even at the height of his empire-building. He says now that he was preparing to retire from business some months before the offer came from Mr Saakashvili. Early this year OMZ looked set to merge with another Russian engineering company, Power Machines, though that deal now seems to be off. Still, Mr Bendukidze has put his shares in trust, and resigned as chief executive. He is a political liberal as well as an economic one, and thus no soul-mate of Russia's president, Vladimir Putin, says a western diplomat who knows him well. Asked whether he was retreating from Russia for fear that the persecution of Mr Khodorkovsky might turn into a purge of oligarchs in general, Mr Bendukidze will not be drawn, saying only that “we have had times [in Russia] harsher than this.”

He is frank about the failings of the chaotic and often rigged Russian privatisations of the 1990s which made him and other oligarchs rich. He snapped up most of OMZ's assets for peanuts— though, by the standards of the day, he subsequently earned his fortune, restructuring the company and halving its workforce. The lesson he drew from the Russian experience, he says, is to change the method of privatisation, not the principle of it. He promises public sales to the highest bidder, and cash only: “no conditions, no promises, no beauty contests”.

Georgia on my mind

He insists that Georgia is a more “individualistic” place than Russia, and thus more receptive to reform. Georgians may take some persuading. A knot of demonstrators blocks Mr Bendukidze's way to work each morning. Opinion polls show only lukewarm support for privatisation. Mr Saakashvili and Mr Zhvania claim to admire his radicalism, but they may yet feel obliged to curb it if they want to conserve political capital for sparring with Moscow or with rebel regions. To Mr Bendukidze, such problems are another argument for boldness: big improvements in business conditions are needed in order to offset big political risks and to keep investors coming. “Other governments make budgets,” he says. “We are making a nation.”

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Philanthropy

Doing well and doing good

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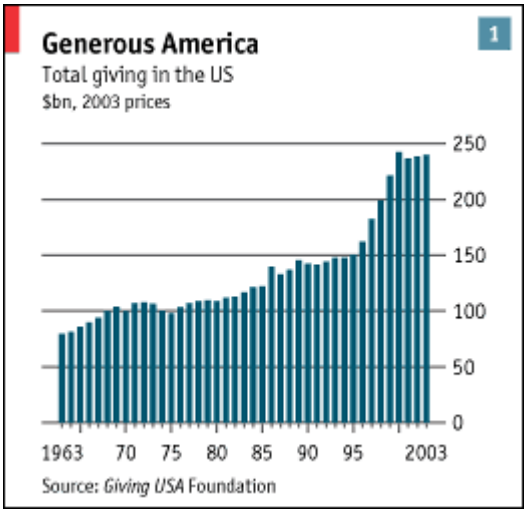
Why a new golden age of philanthropy may be dawning

THAT patron saint of American philanthropy, Andrew Carnegie, believed that "the man who dies rich, dies disgraced." He disposed of 90% of his vast fortune by the end of his life. Carnegie and John Rockefeller were the giants of what now seems a golden age of philanthropy, as the 19th century gave way to the 20th.

Now, another golden age may be about to dawn, and for similar reasons: inequality is a friend of philanthropy, and large fortunes encourage individual generosity. Bill Gates of Microsoft and Pierre Omidyar of eBay are today's Carnegies: successful entrepreneurs who are rebranding themselves as imaginative philanthropists.

And yet to predict another golden age requires a leap of faith. The latest figures published by Giving USA, an annual survey compiled by the Centre on Philanthropy at Indiana University, do indeed suggest that America's giving has risen: it has been 2% or more of GDP since 1998, following more than two decades below that mark, and last year total contributions were 2.2% of GDP, only a whisker below the all-time high of 2.3% in 2000 (see chart 1). But sceptics ascribe this recent rise to the dotcom boom, which caused an unexpected surge of wealth that has not yet shrunk back into line with the slowdown in the economy.



Moreover, in some ways, charities are more beleaguered than in the past. In the United States, where the outpouring of generosity after September 11th 2001 brought charities into the spotlight, the Senate has been holding hearings into a succession of nasty scandals; one result may be legislation; and the Internal Revenue Service has ominously made misbehaviour at non-profit organisations one of its enforcement priorities.

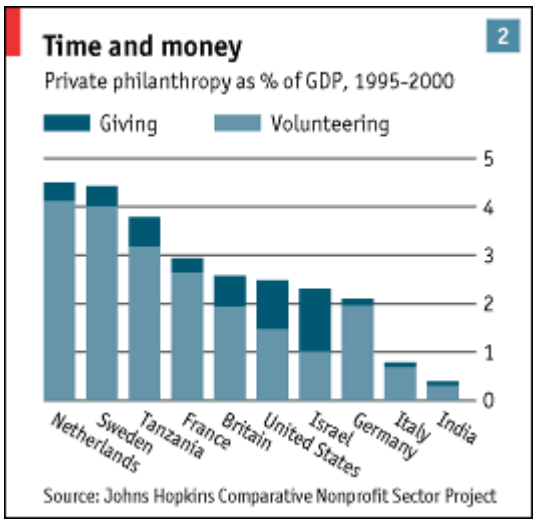
However, on both sides of the Atlantic, there are signs that a new kind of donor is emerging, with a new approach to giving. And—crucially—the combination of increasing wealth and an ageing population will inevitably lead to more gifts from the living and more bequests from the dead. "For the first time in history," says Paul Schervish of Boston College, the principal apostle of a new golden age, "more and

more people have more money than they want to leave to their kids." Tony Knerr, a fund-raising consultant, adds, "There is an extraordinary amount of money available. The lack is of good ideas on how to get the basket under the apple tree."

Counting apples

Measuring philanthropy is difficult, but two things are clear. Private giving is small in all rich countries, relative to state spending. And American generosity outstrips that of most other countries, especially in money terms, and particularly if gifts to religious bodies are included.

One of the most ambitious attempts to measure the size of charity is that of a team led by Lester Salamon of Johns Hopkins University, which has examined 36 countries around the world for a new book*. Excluding donations to religious congregations (an important point where America is concerned), giving varied in developed countries in the second half of the 1990s from around 1% of GDP in the United States (and 1.3% in Israel, where much generosity comes from abroad) to less than 0.1% in Italy, where cash donations account for the same proportion of GDP as they do in India (see chart 2).



But such figures are generally dwarfed by what the state spends on social welfare, and international differences in social spending vastly outweigh those in private generosity. For instance, in America, spending on social welfare accounts for 18% of GDP; in Britain, 28%. That gap dwarfs the gap of four-tenths of 1% of GDP in non-religious charitable donations.

Of course, money is not everything. Mr Salamon's work, which will form the basis for new United Nations guidelines on national accounts, allowing countries for the first time to compare philanthropy and volunteering, finds that gifts of money are generally less important than gifts of time. Around 60% of private giving takes the form of volunteering, the value of which he measures by ascribing to it the average wage of a community worker. Volunteering turns out to be particularly high in the Netherlands, Sweden and other Scandinavian countries, as well as in a few developing countries. In America, the balance between gifts of time and of cash is more equal (if those to religious bodies are excluded) than in most of Europe.

As for religion, it is a powerful force for generosity. Most religions encourage giving, often setting a benchmark (10% is the goal of Christians, Jews and Sikhs alike). For Muslims, the Zakat or charity tax is the fourth pillar of Islam, as important as prayer, fasting or pilgrimage.

In America, religion accounts for a staggering (to non-Americans) share of donations: 62%, according to Indiana University's Centre on Philanthropy Panel Study (COPPS), which looks at what a cross-section of individuals do over a period of time, rather than at what some donors put on their tax returns. Every income group gives more to religious causes than to non-religious. On adjusted figures, says Richard Steinberg, of Indiana University-Purdue University Indianapolis, the poorest fifth of the population gives an average of $234 a year to religion and $85 to other causes; and black people give $924 to religion, compared with $439 to non-religious causes.

In Europe, giving to religion is almost certainly lower, although not always as low as some believe. In Germany, for example, a "voluntary" church tax collects an astonishing €8.5 billion ($9.9 billion) a year. In Britain, a recent study of charity trends by the Charities Aid Foundation, a non-profit body, found that 10% of income given to the 500 largest charities went to faith-based organisations.

America's religious enthusiasm partly explains its relative generosity. Quite a lot of research confirms that religious folk are more generous overall than non-believers. Indeed, COPPS figures suggest that people who profess a religion are more likely to make a gift and to make a larger gift than people who say they have no religion. The difference is particularly striking for Jews. Intriguingly, other work suggests that Jews whose faith fades give less than those who remain believers.

What's in it for me?

Why do people give money and time? On the face of it, the idea of working to earn money, only to give it away is an odd one. Economists, typically baffled by selflessness, have tended to hunt for hidden self-interest in apparent altruism. One recent study† found the reverse: people gave more willingly if they could cloak their altruism in apparent self-interest. When asked to give to a highly worthy cause (to help emotionally disturbed children), the donation rate trebled if donors were offered a product in exchange for their gift. But when asked to give to a mildly worthy cause (helping a team to buy sports equipment), the offer of a present made no difference. No wonder that wise charities work hard to find ways to reward donors.

Increasingly, some governments wonder whether to try to bolster philanthropy. Even before George Bush senior sang the praises of “a thousand points of light”, Americans have never had any doubt. Many argue that community organisations and volunteering strengthen society. But, where public provision of social services is the norm, as in most of continental Europe, governments have been more ambivalent, seeing private provision as a sign of state failure. In America, says Felicity von Peter, who organised a workshop on giving for the Bertelsmann Foundation, donors believe that they can spend money more effectively than the state. In Europe, they are more likely to see private philanthropy as complementary to state action.

Now attitudes are changing, even in Europe. Everywhere, an ageing population is starting to stretch the capacity of the welfare state. So the motivation for bolstering philanthropy is likely to be pragmatic: to fill in the gaps in state provision and to widen the financial support of non-profits, which are frequently channels for state cash. But that is an uninspiring vision compared with Mr Bush's points of light and an appeal to community spirit.

A striking sign of Europe's change of attitude: the British government has helped to back the “Giving Campaign”, a three-year effort to increase charitable giving, especially in tax-efficient ways, and has made the tax treatment of gifts more generous. But if governments want people to be more generous, can they do much about it?

Certainly, the tax treatment of charitable gifts is far kinder in America than in any other large country. Theresa Lloyd, author of a new study of “Why Rich People Give” in Britain, points enviously to the possibility in the United States of making an irrevocable gift of a capital sum, with immediate tax relief and the possibility for the donor to continue to live on the income from the capital. Such a scheme, the underpinning of American “planned giving”, does not exist in Europe.

But tax relief does not lead automatically to higher giving. In America, one-third of staff at companies are typically enrolled in payroll giving. In Germany, payroll giving is non-existent. But in Britain, where it does exist, and where the tax benefits are similar to those in America, only 2% of staff typically take advantage of them. The reason, says Lord Joffe, formerly head of Oxfam, one of Britain's biggest international charities, is that British companies hardly ever promote payroll giving among their staff. In America, payroll giving is not only promoted; it is expected.

Taxes affect giving in two ways. High taxes reduce people's incomes and wealth, leaving them with less money to give away. But generous tax exemptions allow people to give more with less loss of income. They cut the price of giving. Some recent studies, though, suggest that government may give up a great deal in tax revenue to stimulate fairly small amounts of giving. And the relationship between giving and taxation can have perverse effects. For example, America's charities have lobbied hard against scrapping estates tax: they fear people will cut legacies to charities out of their wills if there is no longer any tax advantage in making them.

Tax incentives probably do not cause people to give in the first place, but they may well encourage them to give more generously. They may also have a bigger impact on the wealthy, who are particularly tax-sensitive, than on ordinary mortals. The charities that attract the wealthy, such as universities and opera houses, have more to gain from tax incentives than those the poor favour, such as churches.

Just as important as tax incentives, though, may be public attitudes to philanthropy. They differ vastly between Europe and the United States. But they affect the behaviour of both donors and recipients.

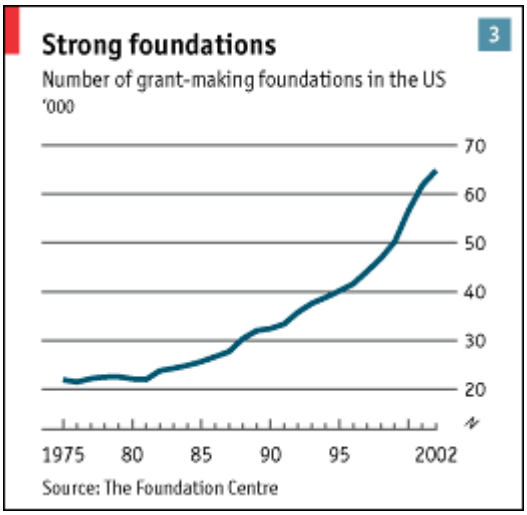
On a continent where being very rich still carries faint implications of impropriety, many Europeans feel uneasy with the idea of competing to demonstrate public generosity. That has all sorts of implications. For instance, Britain's donors, argues Lord Joffe, often do not know how much they should give. In a

recent debate in the House of Lords, he argued for a benchmark, though perhaps not one as high as the biblical tithe, to give the wealthy some idea of what was appropriate. He described a meeting at which people were asked to raise their hands if they gave more than 1% of their incomes to charity. Hardly any did. But after the meeting, many apparently raised the amount they donated.

Even more important is the attitude of would-be beneficiaries. Because they are generally new to the game, Europeans tend to be embarrassed about fund-raising. For example, few of Europe's impoverished universities employ professional fund-raisers. Top American universities typically employ hundreds. At least two of Britain's best university fund-raisers, at the London School of Economics and at Bristol University, are American imports.

Because they do not understand fund-raising, Europeans do it badly. Bertelsmann's Ms von Peter has a string of horror stories about European recipients. In one ghastly case, a would-be donor (with an instantly recognisable name) rang a charity to ask whether he could visit. He was told firmly that he could not, but he was welcome to send a cheque.

The new foundation



Such behaviour may change as donors alter. On both sides of the Atlantic, a striking new development has been the rise in the number of philanthropic foundations (see chart 3). Moreover, whereas foundations in the past tended to be established in bequests, these foundations are often set up by the living.

In the United States, says Eugene Tempel, director of the Centre on Philanthropy at Indiana University, there has been “an explosion” of new private foundations: their numbers are up from about 22,000 in the early 1980s to 65,000 today. Many of the newcomers were founded in the mid-1990s with dotcom money, and many of the founders are younger than in the past.

Something similar is happening in parts of Europe, says Helmut Anheier, at the University of California, Los Angeles, where he is doing a study of philanthropic foundations. There are few in France, Austria or Belgium, he reports, but they are booming in Italy, where they are a relatively new phenomenon. Often, setting up a foundation starts as a way to preserve control of a family business and to avoid taxes and death duties.

Another study, by the Bertelsmann Foundation, reveals that 200 foundations a year were being created in Germany in the early 1990s; now, the birth rate is between 800 and 900 a year. The phenomenon, reports Karsten Timmer, who ran the study, is the result of 60 years of peace, a rare event in Germany over the past millennium. With the retirement of the founders of the post-war businesses that built the German miracle, “the transfer of wealth is extraordinary in Germany today,” he says. Moreover, half the founders he surveyed are actively involved in their foundations, which have become for many their second career.

The result both in America and in parts of Europe is a more directed and more engaged approach to philanthropy. The new wealthy want to make sure their money is properly used, and so want to be involved in its expenditure. Bill Gates argues that you have to work just as hard at giving away your money as you do at making it.

This calls for a different approach by those who run foundations. A few years ago, there was much talk of “venture philanthropy”: the idea that Silicon Valley's entrepreneurs would transfer their creative skills to the foundations they were setting up. They built partnerships and insisted on exit strategies. Today, the best foundations are increasingly businesslike. They want clarity and accountability. They often see their task not just in terms of handing out money, but of forging alliances and building networks: with government and industry, or among fragmented groups of charities.

The growth of such foundations is one reason for believing that philanthropy may be shifting up a gear. More telling, though, is the growth in the numbers of the rich. A study in America, where the figures are easily the best, by Mr Schervish and his colleague, John Havens, at Boston College, has established a striking picture.

They found that the 4.9% of families in America with net worth of $1m or more accounted for 42% of all donations to charitable organisations in 1997. Even more striking, the 0.22% of families with *incomes* of $1m or more contribute about 13% of charitable dollars. And the concentration in bequests is also astonishing: the 0.4% of estates worth $20m or more account for 58% of the value of all bequests.

Interestingly, as the size of estates rises, the proportion going to heirs shrinks and the share left to charity increases. The estates of $20m and more left an average of 49% of their value to charity and 21% to heirs, the rest going in taxes. Could it be that today's rich think that inheriting too much money may harm their children?

If so, there are interesting times ahead. For the coming transfer between generations will be the largest in history. Years of accumulated wealth—in America and in Europe—are about to change hands, as the post-war generation dies off. Mr Schervish and Mr Havens put the size of the transfer likely to occur in the United States between 1998 and 2052 as somewhere between $41 trillion and $136 trillion. For the moment, they bet cautiously on the bottom end—a figure that is four times the present size of the entire American economy and almost as large as the entire world's wealth today.

What do these trends imply for charity? First, as people's incomes and wealth grow, so will the sums going to charity—even if tomorrow's rich are no more generous than today's. In fact, Messrs Schervish and Havens contend, people become more generous as they grow richer. Not only are they more generous in life; they are also so in death. For instance, in the three years from 1995 to 1997, the value of final estates rose 65% in the United States; but bequests to heirs grew by 57% whereas charitable bequests rose 110%. Among the largest estates, the shift was even greater.

All this suggests that the money flowing to charities will rise, and quite possibly rise as a share of the economy. The populations of the rich world will increasingly be older and wealthier than ever before. Charities may benefit to an unprecedented extent. But is that really an attractive prospect, a world of burgeoning philanthropy, full of donors who want to control where their money goes and how it is spent? “You will start to hear, ‘We don't like what the wealthy are giving to. It's undemocratic’,” growls Mr Schervish. He could well be right.

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* “Global Civil Society: Dimensions of the Nonprofit Sector, Volume Two”. Lester M. Salamon, Wojciech Sokolowski, and Associates, Kumarian Press, 2004.

† “Committing altruism under the cloak of self-interest: the exchange fiction.” Dale Miller, John Holmes and Melvin Lerner, Journal of Experimental Social Psychology, Vol 38 (2002)

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About sponsorship

European banking

Abbey ending?

Jul 29th 2004
From The Economist print edition

Reuters

The meaning (or lack of it) of Europe's biggest cross-border bank merger

WHEN Abbey National, an ailing British high-street bank, rebranded itself last autumn, it took on a new name (out went the “National”), a new look (soothing pastels, fuzzy lettering) and a new lexicon (it promised its customers plain English and no jargon). Now, halfway through a three-year resuscitation programme, the bank, Britain's sixth-biggest, is to be sold. On July 26th, Abbey said that its board had approved an £8.5 billion ($15.5 billion) cash-and-shares bid from Banco Santander Central Hispano, Spain's biggest bank.

If accepted by shareholders, the deal will mark the biggest cross-border bank merger in Europe, eclipsing HSBC's purchase of Crédit Commercial de France for €11 billion ($10.5 billion) in 2000, as well as the first acquisition of a British bank by one from continental Europe. Some pundits see it as the start of a long-predicted wave of takeovers across Europe's borders. Although the European Union is in theory a single market, its banking industry remains fractured along national lines.

For Santander, too, this is a momentous step. Since 1986, when its boss, Emilio Botín, took the helm, it has grown from being merely one of Spain's seven leading banks into its biggest and has become the largest foreign bank in Latin America through a number of often pricey acquisitions. Now it is buying its way into the top ten banks in the world by market capitalisation (see chart 1). Primarily a retail bank, Santander will gain 741 branches and almost 18m customers in Britain, and the number-two slot in the country's mortgage market. The deal will also reduce Santander's dependence on Spain and Latin America. Hitherto it has managed to buy only small consumer-finance firms in continental Europe.

The deal may yet come unstuck. Abbey's 1.75m small shareholders, most of whom have been with it since demutualisation in 1989, might not want shares in a Spanish bank and in any case might hope for a better offer. Two years ago, when its share price was higher, Abbey's then bosses spurned approaches from National Australia Bank and Bank of Ireland (chart 2). Recently Citigroup and Bank of America have been among those said to be interested. A British

buyer looks unlikely, because an £18 billion bid by Lloyds TSB in 2001 was stymied by competition authorities. Even so, changes in the banking market since then—notably, the merger of Halifax and Bank of Scotland to form HBOS, now Britain's fourth-biggest bank—may have left the door ajar.

Given all this, some question why Luqman Arnold, who was brought in as chief executive in 2002 to revive Abbey, was so quick to accept Santander's offer just as his efforts seemed to be bearing fruit. The cause of Abbey's terrible recent troubles—a disastrous foray into corporate and wholesale banking—has been cut off. The bank made a profit in the first half of this year, having lost £644m after tax in 2003. Pessimists note, however, that Abbey is still struggling. Its share of household savings fell to 7.1% last year, from 8.3% in 2000. It suffered an outflow of £1.2 billion in deposits in the first quarter of this year. Despite the rebranding, it still has its work cut out in its core, retail business.

Mr Arnold thinks that Santander can do a better job than he can of restoring Abbey's fortunes. So, of course, does Mr Botín. He plans to cut annual costs by €450m within three years, mostly by replacing Abbey's antiquated information-technology systems and boosting efficiency, and to raise revenue by €110m a year by simplifying some products and cross-selling others. Abbey has the lowest revenue per customer of Britain's top banks.

Goodbye to bad habits

Others are not so sure. Abbey has cut costs already, they point out. A merger with a British bank, if it were not ruled out, might offer much greater savings, for example by closing duplicated branches. Despite the high margins enjoyed by British banks, the market is competitive, especially in Abbey's patch, savings and mortgages. The mortgage market may get even tougher now that the Bank of England is issuing warnings about the overheated housing market and is raising interest rates. Analysts at Citigroup reckon that a more realistic figure for cost savings plus increased revenues from an Abbey-Santander marriage is about half of Mr Botín's estimate.

Nonetheless, investment bankers across Europe are wishing Mr Botín well, hoping that his bid will spark other cross-border deals. So far, most such mergers have been small, between neighbours and not always successful. One of the few truly cross-border banks, a Danish-Finnish-Norwegian-Swedish combination called Nordea, is widely considered a flop.

Although it is possible that European banks will be panicked by Santander's move into a sudden dash for size, this week's deal looks unlikely to start a rush. The barriers that have stood in the way of cross-border mergers in the past—different taxes, regulations, cultures and languages—remain. The patchwork of national rules governing financial services means that bank products tend to be specific to each country and thus cannot be easily sold across borders.

As a result, many of the usual reasons for merging, such as cutting overlapping branches or products, or taking existing products into new, similar markets, are absent. Then there is nationalism, which might prevent banks from selling out to foreigners. And in some countries, especially Germany, domestic consolidation still has some way to run. Britain and Spain, as it happens, are among Europe's most concentrated markets. “Maybe in five or ten years, there will be a pan-European bank market,” muses Sam Theodore of Moody's, a rating agency, “but for now, big cross-border bank deals add little value.” Such reservations, however, are not enough to stop Mr Botín.

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Asian equities

Falling out of love

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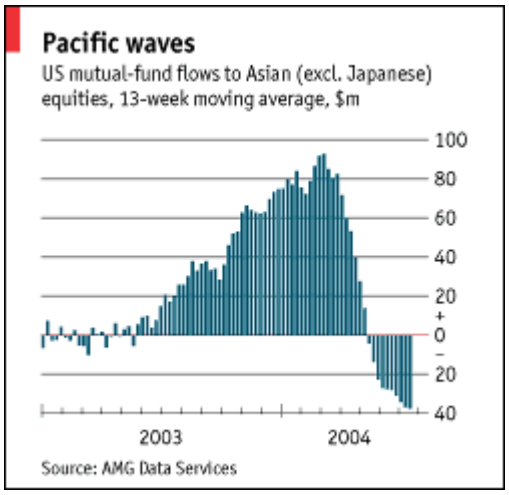
From The Economist print edition

Western investors are once again retreating from Asian shares

A PASSIONATE affair, after which the American libertine abandons his Asian bride: the plot of “Madame Butterfly”, it seems, is being acted out in the equity markets. In spring last year, western portfolio investors rediscovered their appetite for risky assets of all sorts. Nowhere did they bet as enthusiastically as in Asian emerging stockmarkets. In the eight months from May 2003, the MSCI Asia (ex-Japan) index leapt by more than 60%, energised by billions of dollars from foreign pension funds, insurers and retail investors such as the buyers of American mutual funds.

The attraction lasted barely a year. While local investors have remained more or less on the sidelines throughout, the foreigners have started to claw back their money again (see chart). As a result, Asia's stockmarkets have stagnated this year. Granted, share prices almost everywhere have performed poorly: this week, America's S&P 500 and Britain's FTSE 100 sank to seven- and nine-month end-of-day lows respectively. But Asia has fared worse than most. So far this year, the MSCI Asia index is down 6.3% in dollar terms, compared with 2.3% for Latin American shares, 2.9% for European ones and 1.5% for the S&P 500. In May, says Miranda Ma, Asia equity strategist at UBS in Hong Kong, foreigners sold a net $2.5 billion of emerging Asian shares, the first monthly outflow for a year.



There are two reasons for foreigners' change of heart. First, the rise in American interest rates, initiated by the Federal Reserve at the end of June, is sucking money back home and out of riskier assets. Highly geared investors, notably hedge funds, are being forced to unwind the purchase of risky assets, including Asian shares, with cheaply borrowed dollars. Second, fears of a “hard landing” for the Chinese economy have affected the entire region, because so much of Asia's economic and corporate-profit growth is based on exporting commodities and manufactured goods to the world's workshop.

Not all markets have suffered equally. Taiwan and Hong Kong, which have the closest links to mainland China, have been weak. Taiwan was also buffeted by a contentious presidential election in March. Thailand has fallen out of favour because of doubts about whether “Thaksinomics”, its prime minister's attempt to eschew foreign investment in favour of home-grown business skills, can deliver the promised supercharged growth.

Malaysia and Singapore have done rather better, being less exposed to China, American interest rates and oil prices. South Korea, even though its stockmarket is worth less than at the start of 2004, remains a favourite with foreign investors. Of the $14 billion invested in emerging Asian markets this year, excluding China and Malaysia (for which no figures are available), $11 billion has been sent to South Korea.

To some, Asian stocks now look cheap after their recent uninspiring performance. Relative to shares elsewhere, argues Markus Rösgen, regional strategist at Citigroup, Asian equities are cheaper than at the start of any of the Fed's tightening cycles since 1980. Profitability and dividend yields have improved over the past couple of years as companies have reduced their debts and started to pay attention to shareholders' concerns. A lot of corporate restructuring has been undertaken since the 1997-98 financial crisis. Even so, the risk premium attached to Asian equities has not fallen significantly.

Time to buy, then? Maybe not. Arguments about valuation point in one direction: macroeconomic currents are flowing the other way, and seem the stronger force. True, the latest economic data from America have been softish, suggesting that interest rates there may rise more slowly than expected a few weeks ago. This should reduce pressure on Asian currencies and boost exports. However, the determination of the Chinese authorities to put the brakes on their economy cannot be doubted. They may be all too successful.

China's GDP grew by 9.6% in the year to the second quarter, down from 9.8% the quarter before and 9.9% the quarter before that. This suggests that economic growth is barely decelerating, let alone screeching to an abrupt halt. But the growth of fixed-asset investments, the money supply and bank credit are all slowing faster, indicating that the deceleration of the entire economy may be greater than it appears. Desmond Supple, emerging-markets strategist at Barclays Capital, now worries that his forecast for growth, of 7-7.5% at an annual rate in the second half of the year, “may be undershot, given the government's inevitable struggle to gently deflate an investment and credit bubble”.

Even if the authorities manage to execute a soft landing—with growth rolling along at, say, 7%—there could still be a nasty bump for Asian corporate profits and thus for equities. As Jonathan Anderson, chief Asia economist at UBS, points out, Chinese companies have been able to protect their earnings from the impact of rapidly rising raw-material prices only because rampant demand has filled their factories. As the economy slows and that reverses, their profit margins will suffer first—UBS expects a 20% squeeze—and they will pass on the pain to their suppliers across Asia. Profit warnings, or forecasts of them, have already been heard in several Chinese industries.

Mr Rösgen, who judges the chance of a soft landing for profits to be “close to zero”, says that western investors have not been slow to notice this: “Last year everybody loved China, but suddenly the bride has turned ugly.” In “Madame Butterfly”, Lieutenant Pinkerton always regarded his liaison as no more than a passing fancy. Today's western visitors are also looking for something more lasting at home.

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Occupational pensions

Losing altitude

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From The Economist print edition

Renewed retirement worries for workers in America and Britain

Get article background

WORKING for an airline has its perks: free trips round the world, discounts for relatives and much more. That is small comfort to angry employees of United Airlines, America's second-largest carrier. On July 23rd United said it would stop contributing to its pension scheme, which is already underfunded by $7.5 billion, while it tries to pull out of bankruptcy. The Pension Benefit Guaranty Corporation (PBGC), a government agency that insures the bulk of corporate America's pension plans, promptly called the move illegal, fearing that it will have to foot the bill.

AP

Steaming at United

Across the Atlantic, British workers are feeling the effects of another American bankruptcy. Turner & Newall (T&N), a maker of car parts, has frozen its contributions for 2,500 of the 40,000 members of its pension fund, and put the rest on notice. This follows the entry into Chapter 11 bankruptcy proceedings three years ago of Federal-Mogul, T&N's American parent, as a result of asbestos-related claims. Negotiations over the scheme are continuing.

Plenty more occupational schemes in both countries are also in bad shape, even when companies are not bankrupt. Recent studies have found a gap of around £60 billion ($110 billion)—ie, an excess of estimated liabilities over assets—in the pension schemes of companies in Britain's FTSE 100 stockmarket index. In America, the PBGC estimates that the schemes it insures are underfunded by $280 billion.

To a degree, both the American and British governments are prepared to help when company schemes run into trouble. America set up the PBGC 30 years ago. It collects premiums from employers and, if they cannot pay their guarantees, will take over the scheme. Hence the PBGC's concern about United: the agency will assume much of the burden if a bankruptcy court allows the airline to terminate its pension scheme. The thought makes United's workers, especially pilots, shudder too, because the maximum payout is $44,400 per worker per year. Britain plans to start up a similar scheme, the Pension Protection Fund, in April next year.

Yes, but what if these government schemes are themselves short? America's PBGC, already saddled with liabilities from the likes of Bethlehem Steel and US Airways, has a deficit of $9.7 billion which it thinks could exceed $18 billion by 2013. In Britain, Mercer, an actuarial firm, estimates that the proposed state scheme could face a £3 billion gap after 10 years. Britain has an interim scheme, approved in May, to provide £400m in public money for pensions of workers in currently distressed firms. If it had to cope

with claims from T&N, which has a shortfall of about £875m, it would be overwhelmed.

So what is to be done? The most important thing is for firms to reduce their deficits by themselves. In Britain, several top companies have been doing exactly that in recent months. Companies have also, sensibly, been switching from defined-benefit schemes, under which the company bears the risk of maintaining pension payments, to defined-contribution plans, in which the risk lies with individual pensioners.

Poison-pill pensions

Pension funds are also becoming a contentious issue in takeover battles: the thought of a hole has put buyers off. Philip Green, a retailer who recently offered to buy Marks & Spencer, a high-street chain, complained that he was given too little information about the company's pension fund. Permira, a private-equity fund that was after WH Smith, a bookseller, was put off by its pension deficit (which WH Smith promised to reduce this week). “I can see a whole new field opening up for investment banks in advising pension-fund trustees on the corporate-finance implications of takeover transactions,” says one prominent former investment banker.

But the state insurance schemes also need fixing. Britain's fund is expected to invest in shares, the idea being that higher returns will reduce the need for hefty premiums. It would be wiser to buy bonds, so that the scheme is not clobbered by a bear market along with the pension plans it insures. Another flaw in Britain's plans is the idea of charging employers flat-rate premiums. Risk-based levies, taking into account companies' credit ratings and the funding of their pension schemes, would be better, rewarding firms with strong schemes and penalising those with poorly funded ones. Britain may revise these features before they are applied fully in 2009. America's PBGC now charges on this basis to some extent. Clearly, it has not charged enough. Taxpayers in both countries should be alarmed: if government-backed schemes fail, they may yet be asked to pay.

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American corporate lending

Cheap again

Jul 29th 2004 | NEW YORK
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After a brief pause in May, money is once more being thrown at borrowers

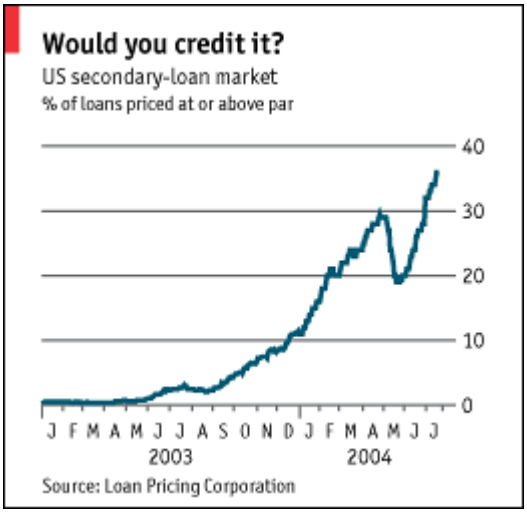
CONSTELLATION BRANDS is a serial acquirer of well-known names in the alcoholic-drink trade. No sooner has it digested one and tidied up its balance sheet than it takes on more debt, ready to buy the next. Ordinarily, this practice would add to its borrowing costs. Not now. On July 28th, it repriced more than $1 billion-worth of loans, on terms normally reserved for investment-grade companies: just 1.5 percentage points over LIBOR (London Interbank Offered Rate: the interest rate at which international banks lend to one another). This followed a previous deep cut in the company's borrowing costs only last November.

And Constellation is hardly unique. In recent days similar refinancings have been made by Dr Pepper, a maker of fizzy drink; Community Health Systems, a big hospital chain; CSK Auto, a parts manufacturer; Scotts Company, a garden-supplies company; and Dean Foods, a processor of dairy products. All have financial statements below the top rank. All would have found it hard, or at any rate expensive, to borrow in 2002. Now lenders are tossing money at them.

One striking example of how accommodating the market has become is that of UGS, a software firm spun out of EDS, a computer giant, in May to a consortium of private-equity firms. UGS's credit rating is not even close to investment grade. It has not had a chance to issue a single quarterly report. Yet it recently refinanced a half-billion-dollar loan arranged in May, saving millions in interest.

Wait a moment. Aren't interest rates in America supposed to be rising? So shouldn't borrowing be getting dearer not cheaper? Well, official rates are indeed on the increase. So is LIBOR, which has climbed from 1.1% early in the year to 1.6% today. However, the spread between borrowing costs for junk and top-notch credit is narrower than at any time since 1998, during the emerging-market debt crisis, says Chris Donnelly, director of Standard & Poor's LCD, an information service. This contraction has more than offset the rise in LIBOR—which is in any case still low in historical terms. In 2000 LIBOR twice topped 6.8%. With rates plummeting, 87% of companies refinancing in the past year have done so twice, says Mr Donnelly.

A consequence of the fall in rates has been in the secondary market, for corporate loans sold to institutions, where the number of loans trading at a discount has contracted sharply. More than one-third trade above the price at which the issuers may repurchase them (see chart). This is a record, says the Loan Pricing Corporation, an information firm. It is, observes Meredith Coffey, the firm's director of analytics, a very good time to be a borrower.



Why are credit markets so strong? One reason is that banks cut lending sharply three years ago, when the economy was less healthy. Having missed the interest income, they are eager to lend again. Second, credit quality is good. Defaults by corporate borrowers have been declining since early 2002. In the second quarter, says Moody's, a rating agency, upgrades exceeded downgrades for the first time in four years. Third, profits have been strong and cash reserves have risen. Finally, the economy is running well, but not boiling—so the bond market is not overheating. Although there is inflation in some places, others are quieter: retail sales and the car market are slow. For a moment at least, the habitually gloomy credit markets are beaming with optimism.

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Secured lending

Fixed or floating?

Jul 29th 2004
From The Economist print edition

International banks are waiting for the paint to dry on a British court case

NORMALLY, an insolvent, little-known British paint company would interest few bankers besides those who had lent it money. However, any international bank that has made a secured loan under English law—which is used in many jurisdictions around the globe—might well keep an eye on the case of Spectrum Plus. Earlier this month the Court of Appeal in London said, in effect, that the House of Lords, Britain's highest court, should have the final say in a test case brought by National Westminster Bank about Spectrum Plus, to which it had given a secured loan.

At issue is whether NatWest enjoys a fixed or a floating charge over Spectrum Plus's book debts and their proceeds. The difference is important, because fixed charges give banks the legal right to payment from a bust borrower ahead of all other creditors. With a floating charge, they must join the queue and face more risk of losing their money. Until three years ago, banks took comfort from a 1979 High Court ruling in a case known as *Siebe Gorman* (after one of the creditors). In essence, banks using English-law documents were generally entitled to believe that they had a fixed charge as long as they and their borrowers had agreed to that.

NatWest asked the High Court last year whether security (identical to that in *Siebe Gorman*) that it had taken for a loan to Spectrum Plus gave it a fixed charge. In January, the High Court said no: NatWest had only a floating charge, and the *Siebe Gorman* ruling had been wrong. The Court of Appeal reversed this in May. However, it has now given permission for an appeal against its judgment—in effect, giving the House of Lords the last word.

Recent doubts over the correctness of *Siebe Gorman* date from 2001. In a New Zealand case known as *Brumark*, senior English judges hearing the final appeal in London ruled that whether a charge was fixed or floating depended on substance, not form: what mattered was not what the parties had agreed on paper, but how easily the lender could gain control of the assets on which the loan was secured.

The appeal to the Lords will surely cause a re-examination of this ruling too. It will interest the British government as well as bankers. Until the law changed last September, some government departments were first in line after fixed-charge holders when firms went under. Now they must wait their turn, at an estimated cost to the state so far of £70m ($128m). If the Lords reverse the Court of Appeal's ruling, turning some supposedly fixed charges into floating ones, the state will move up the queue in insolvencies predating the change in the law.

It is right that the case may go to the Lords. Hundreds of British insolvencies have already been held up. Cases overseas involving English law might also be affected. For the sake of both bankers and bankrupt borrowers, it is to be hoped that the law will be made clear.

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Exchange-traded funds

Entirely too frenetic?

Jul 29th 2004
From The Economist print edition

The latest in fund fashion

INVESTORS, like teenagers, are happiest chasing fashion. In the 1990s, indexed mutual funds became a must-have investment. Now the coolest things on the planet seem to be exchange-traded funds (ETFs)—baskets of securities that can be traded throughout the day, chiefly on the American Stock Exchange or, in Europe, on the Frankfurt stockmarket. Assets in these grew by 16.2% in the first half of this year, according to Morgan Stanley. So popular have they proved in Frankfurt, says Deutsche Börse, which runs the exchange, that the spread between the buying and selling prices of ETFs tracking the DAX index was squashed by more than half last year.

Purchasers of ETFs (who have to use brokers) buy shares in a fund that owns securities, not the underlying securities themselves. The same is true of traditional mutual funds; the difference is that ETFs can be traded continuously, whereas mutual funds can be bought and sold only at a price set once a day.

The idea is that ETFs combine the low cost and tax efficiency of indexing with the agility of stocks. One ETF has touted the joys of trading the S&P 500 index all day, in real time. “What kind of a nut would do that?” asked John Bogle of Vanguard, an index-fund specialist, in a speech this spring. Mr Bogle sees the logic of having narrowly segmented speciality funds but worries that broad index funds, originally designed for low-cost, long-term investing, are now being turned to short-term speculation, with accompanying trading costs and taxes. Still, the constant trading of ETFs means they are structurally immune to the malpractices, known as late trading and market timing, that have sullied some American mutual funds.

America, where they were introduced 11 years ago, has led the rush: $178 billion is now invested. State Street, a bank, reports that assets in its ETFs there have grown by nearly 14% in a year. It will also help launch China's first ETF, based on the Shanghai 50 Index, by the end of this year. Barclays Global Investors (BGI), America's (and the world's) leading purveyor of the funds, pulls in close to $1 billion a week globally. In Asia, Japan alone has $30 billion in ETFs, more than the whole of Europe, mostly because regulators there have encouraged their creation as a way for companies such as banks to unwind their corporate cross-holdings, according to Deborah Fuhr of Morgan Stanley. Britain is a laggard: investors may be discouraged by a tax of 0.5% on each share created, although secondary trading is exempt.

Hedge funds are among the biggest enthusiasts, often using ETFs as a substitute for futures. For example, they may buy individual stocks or sectors but insure their portfolio against market fluctuations by shorting an ETF for the S&P 500, says Bruce Lavine of BGI. Pension funds, which are sometimes banned from dealing in derivatives, do likewise. Many small investors are also keen. Deutsche Börse says that 40% of its ETF investors are retail, but they account for just 5% of order-book volume.

Will the frenzy last? Vanguard remains wary despite starting 16 ETFs, called Vipers, that are linked to its regular index funds. “It's a little like the Internet craze,” says Gus Sauter, the firm's chief investment officer. ETFs are cheap to start up—costing well under $1m, says Mr Sauter—but they require scale to survive because their charges are low. Compounding the trouble, he says, the funds often pay high fees to their index provider. As a result plenty of enterprising souls have begun making indexes, so there are

already too many. Currently, he says, there are four or five large-cap value ETFs: “Does the world need five?” He predicts consolidation and says some ETFs have already been shut down owing to lack of demand.

Enthusiasts have been undeterred; believe it or not, some are even trying to devise actively managed (rather than index-linked) ETFs. Still, ETFs are far from superseding their more traditional competitors. Their total value in America is less than 3% of the $7.5 trillion in mutual funds. The new fashion looks unlikely to displace the established style of investing just yet.

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Economics focus

Monetary lifeline

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From The Economist print edition

Remittances from migrant workers in rich countries are increasingly important to developing economies

POOR migrant workers earn little money and less respect. They fill the meanest jobs, often with no legal protection. Yet they still manage to save remarkable amounts of money: some might put aside half their pay or more. Despite this, governments and financial institutions have usually paid them scant attention because they typically send home small amounts, no more than a few hundred dollars at a time. That is changing, however, for three reasons: though individually small, remittances are huge in aggregate; they are essential to the economies of many migrant workers' home countries; and they are now viewed as a possible means of money laundering and source of finance for terrorism.

According to a recent study* by Dilip Ratha, an economist at the World Bank, remittances amounted to $93 billion last year. This is more than poor countries received from aid or capital markets. The real number, Mr Ratha says, may be twice as high—making remittances greater than foreign direct investment and in some countries more valuable than exports.

No one knows remittances' true extent. Many of the main source countries, including Canada and the Netherlands, and leading recipients, such as Lebanon and Guyana, are just beginning to compile data from their banking systems and have yet to report them. Even this, however, will only scratch the surface. Transfers through banks are regulated and thus relatively easy to track, but account for perhaps only a tiny percentage of the total flow. Most of the money is sent through wire-transfer agencies, which are lightly regulated. Another large chunk goes through channels that are not regulated at all. In Cuba, for example, the method of choice is a suitcase filled with cash. Complex networks of unregistered agents, known as *hawala* in the Arab world, *hundi* in India and *fei-ch'ien* in China, leave no trace.

What is plain, however, is the importance to several countries of emigrants' remittances. These payments provide more than a quarter of GDP for Jordan, Lesotho, Nicaragua, Haiti and Tonga, and more than 5% for many others. In 36 countries, remittances exceed all other imports of capital combined, public and private. Recent research ties rising remittances directly to increasing GDP and reducing poverty. Another study finds a positive link between remittances and the probability that children stay in school. At this year's G8 summit, rich-world politicians noted the importance of remittances in financing small businesses, education and housing in recipient countries. As a source of finance, remittances have several advantages. Unlike development loans, they do not come with a liability or an obligation to pay interest. They are sent directly to the people for whom they are intended and thus cannot be squandered by governments. They are a more stable funding source than foreign direct investment (and even more stable than portfolio flows).

Go with the flow

Seeing the importance of remittances, governments in receiving countries have been encouraging them. India, the largest recipient, abolished taxes on remittances several years ago. Colombia followed in January. Mexico, the second-largest, has made sending money home far easier for its many citizens working in America by issuing an identification card that even illegal immigrants can use to open an American bank account. Brazil and Guatemala will soon introduce similar cards.

Scenting an opportunity, companies from banks to Wal-Mart have been entering the business of providing the means of sending money home. As a result, many migrants have seen the cost of

remittances fall by half in the past five years. Yet charges remain painful. According to a study by the Pew Hispanic Centre, which chronicles Latinos' experiences in America, the cost of sending money to Mexico, a market where competition and efficiency are relatively high, is still 4% of the sum sent. Transfers to Venezuela and Cuba cost three times as much. Much of the cost—such as a poor exchange rate—is often hidden from customers.

Still, a steady and rising source of money has prompted many large banks to look beyond transfers for further opportunities in serving migrants and those to whom they send money. Once the money arrives, it theoretically could become a deposit, and that, in turn, could provide the basis for more sophisticated products. That ought to assist the development of modern financial markets, and improve the allocation of capital.

Despite their virtues, remittances can also be a source of trouble. How much trouble, no one can tell. Because it is hard to know the size of the flows, it is hard to be sure that the mass of tiny transactions are not being used to launder money or finance terrorism. Applying know-your-customer rules to millions of tiny transactions is plainly impossible. Trying to stop suspicious flows can be costly to recipient economies: recent efforts by Saudi Arabia (after America, the largest source of remittances) to crack down on the financing of terrorism have had a discernible effect on money being sent back to the Philippines.

There may also be economic costs associated with reliance on remittances. Like any unearned wealth, they may foster idleness among those who benefit. They might result in what economists call “Dutch disease”, pushing up the value of a nation's currency. Some also worry that remittances are earned not only by poor migrants but by a country's most productive or essential workers—engineers and doctors, say—who supposedly could be doing more good at home. But that, surely, is their choice. And if they can earn more abroad, then they are not the only ones that gain: so do their hosts and the people back home, thanks to the funds sent from a wealthy foreign land.

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* Mr Ratha's paper, "Workers' Remittances: An Important and Stable Source of External Development Finance" can be found here. The reported connection between rising remittances, increasing GDP and reducing poverty is set out in "The Impact of International Migration and Remittances on Poverty", by two more World Bank authors, Richard Adams and John Page. The link between remittances and education is explored in a National Bureau of Economic Research working paper, "International Migration, Remittances and Schooling: Evidence from El Salvador", by Alejandra Cox Edwards and Manuelita Ureta. The Pew Hispanic Centre's study can be found here.

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Nutrition

Food for thought

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MAXPPP

Global hunger is on the wane but it is still hampering the growth of people, and of economies

THERE are not enough classrooms at the Msekeni primary school, so half the lessons take place in the shade of yellow-blossomed acacia trees. Given this shortage, it might seem odd that one of the school's purpose-built classrooms has been emptied of pupils and turned into a storeroom for sacks of grain. But it makes sense. Food matters more than shelter.

Msekeni is in one of the poorer parts of Malawi, a landlocked southern African country of exceptional beauty and great poverty. No war lays waste Malawi, nor is the land unusually crowded or infertile, but Malawians still have trouble finding enough to eat. Half of the children under five are underfed to the point of stunting. Hunger blights most aspects of Malawian life, so the country is as good a place as any to investigate how nutrition affects development, and vice versa.

The headmaster at Msekeni, Bernard Kumanda, has strong views on the subject. He thinks food is a priceless teaching aid. Since 1999, his pupils have received free school lunches. Donors such as the World Food Programme (WFP) provide the food: those sacks of grain (mostly mixed maize and soyabean flour, enriched with vitamin A) in that converted classroom. Local volunteers do the cooking—turning the dry ingredients into a bland but nutritious slop, and spooning it out on to plastic plates. The children line up in large crowds, cheerfully singing a song called “We are getting porridge”.

When the school's feeding programme was introduced, enrolment at Msekeni doubled. Some of the new pupils had switched from nearby schools that did not give out free porridge, but most were children whose families had previously kept them at home to work. These families were so poor that the long-term benefits of education seemed unattractive when set against the short-term gain of sending children out to gather firewood or help in the fields. One plate of porridge a day completely altered the calculation.

A child fed at school will not howl so plaintively for food at home. Girls, who are more likely than boys to be kept out of school, are given extra snacks to take home. So are orphans, who are plentiful in Malawi because so many adults have died of AIDS.

When a school takes in a horde of extra students from the poorest homes, you would expect standards to drop. Anywhere in the world, poor kids tend to perform worse than their better-off classmates. When the

influx of new pupils is not accompanied by any increase in the number of teachers, as was the case at Msekeni, you would expect standards to fall even further. But they have not.

Pass rates at Msekeni improved dramatically, from 30% to 85%. Although this was an exceptional example, the nationwide results of school feeding programmes were still pretty good. On average, after a Malawian school started handing out free food it attracted 38% more girls and 24% more boys. The pass rate for boys stayed about the same, while for girls it improved by 9.5%.

Better nutrition makes for brighter children. Most immediately, well-fed children find it easier to concentrate. It is hard to focus the mind on long division when your stomach is screaming for food. Mr Kumanda says that it used to be easy to spot the kids who were really undernourished. “They were the ones who stared into space and didn't respond when you asked them questions,” he says.

Richer diet, richer planet

More crucially, though, more and better food helps brains grow and develop. Like any other organ in the body, the brain needs nutrition and exercise. But if it is starved of the necessary calories, proteins and micronutrients, it is stunted, perhaps not as severely as a muscle would be, but stunted nonetheless. That is why feeding children at schools works so well. And the fact that the effect of feeding was more pronounced on girls than on boys gives a clue to who eats first in rural Malawian households. It isn't the girls.

On a global scale, the good news is that people are eating better than ever before. *Homo sapiens* has grown 50% bigger since the industrial revolution. Three centuries ago, chronic malnutrition was more or less universal. Now, it is extremely rare in rich countries.

For an illustration of how quickly some nations and their diets have grown richer, step into a crowded lift in a Japanese corporate HQ. Etiquette dictates that the most junior employees stand at the front and press the buttons, while the oldest and most senior stand at the back. What is striking, is how much shorter those at the back are. In only a single generation, high-speed economic growth has added centimetres to the national stature. Nutritionists think this kind of thing could happen anywhere.

In developing countries, where most people live, plates and rice bowls are also fuller than ever before. The proportion of children under five in the developing world who are malnourished to the point of stunting fell from 39% in 1990 to 30% in 2000, says the World Health Organisation (WHO). By 2005, this figure is projected to fall below 26%. And the UN's Food and Agriculture Organisation (FAO) estimates that 17% of people in the developing world were undernourished in 1999-2001, a slight drop from 18% in the mid-1990s. The absolute number of undernourished people rose slightly over that period, however, from 780m to 798m.

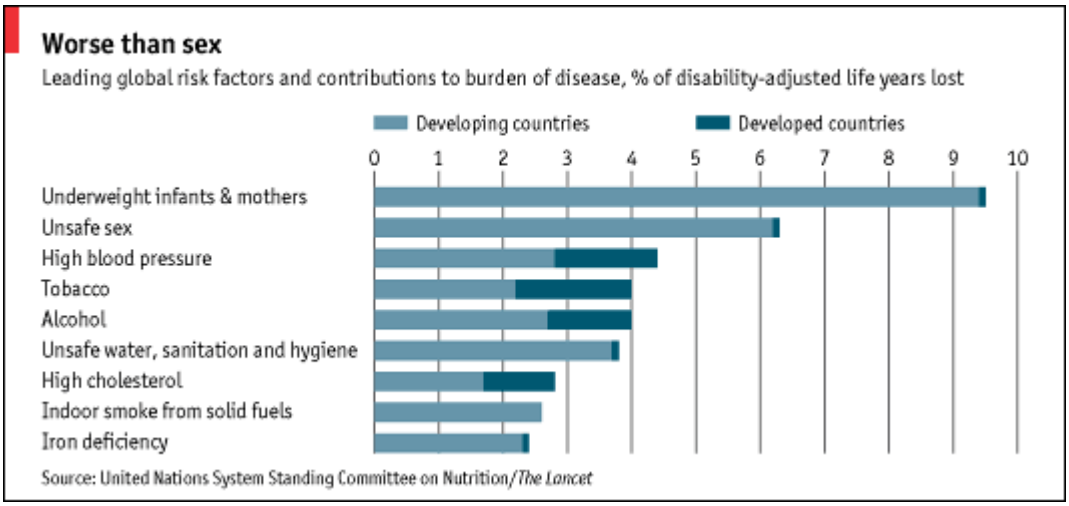
In recent years, such improvements have stemmed largely from swift economic growth in China and, to a lesser extent, India. Most of the world's malnourished children are still in Asia, but the average Chinese enjoys a third more calories today than he did two decades ago.

Africans are doing less well. A third of Africa's people are undernourished, a figure that barely changed between the mid-1990s and the turn of the millennium. In central Africa, which has been thrown into confusion by the war in Congo, the proportion of hungry people rose from 53% to 58% between 1995 and 2001. More peaceful parts of Africa did much better: and malnourishment is on the retreat in such places as Nigeria, Angola, Ghana, Malawi and Madagascar.

Even those who have never experienced it know that hunger is a bad thing. But can the harm it inflicts be measured? Up to a point, yes. Malnutrition is the largest single contributor to disease, according to the UN's standing committee on nutrition. Hunger weakens the immune system. At the same time, disease can aggravate malnutrition. This may be direct—for example, when infection leads to appetite loss, or impedes the absorption of nutrients into the bloodstream—or indirect, say when a peasant is too sick to work, and so grows less millet.

Inadequate nutrition of mothers and young children alone is responsible for 9.5% of the global burden of disease (see chart). Underweight infants are much more likely to succumb to diarrhoea, malaria or pneumonia. And, by some estimates, more than half of the 10m annual deaths of young children are directly or indirectly attributable to malnutrition. Furthermore, the interaction of hunger and AIDS aggravates matters. HIV infection progresses more quickly to full-blown AIDS in a body weakened by

hunger. And hungry women are more likely to sell their bodies to buy food.



Obviously, what hungry people need first and foremost is more food. But they also need better food. The most basic kind of malnutrition is called “protein energy deficiency”. In other words, a diet that is lacking in energy because of a deficit in all the major macronutrients—such as carbohydrates, fats and proteins. Typically, though, such a diet will also be deficient in many micronutrients. As a consequence many lives are blighted for want of tiny amounts of iodine, iron, vitamin A and zinc. Micronutrient deficiencies are ranked eighth among the top ten risks to health worldwide by the WHO.

Take iodine. Nearly 2 billion people consume less of this mineral than they should—usually because the water and soils where they live lack it. The most visible sign of iodine deficiency is a swelling of the thyroid gland called a goitre. The most important effect, though, is on the brain, which cannot develop properly without iodine. Each year, says the UN, some 20m children are born mentally impaired because their mothers did not consume enough iodine. The worst affected suffer cretinism, the symptoms of which include severe mental retardation and physical stunting.

Iron deficiency, meanwhile, is the most common nutritional deficiency in the world, affecting some 4.5 billion people. Iron is essential as it forms the molecules that carry oxygen in the blood. Symptoms of deficiency include fatigue, shortness of breath and lethargy. A lack of iron damages productivity and cuts GDP by 2% in some countries says the WFP. Researchers Sue Horton, of the University of Toronto, and Jay Ross, of the Academy for Educational Development in Washington, estimate that lost productivity due to iron-deficiency anaemia costs Bangladesh 7.9% of GDP each year.

Worse, perhaps, is that iron deficiency impedes cognitive development. Some 40-60% of children in developing countries are impaired in this way. Nevin Scrimshaw, a nutritionist at the United Nations University in New Hampshire, says that iron-deficient children are retarded by the equivalent of five to ten IQ points.

Meanwhile, vitamin A deficiencies compromise the immune systems of a large proportion of those under five in poor countries—increasing their susceptibility to infectious diseases, and ultimately causing 1m infants to die each year. Deficits also cause hundreds of thousands of children to go blind each year, says the Micronutrient Initiative, a lobby group based in Ottawa. Finally, insufficient zinc appears to be linked to a higher risk of dwarfism, diarrhoea and pneumonia.

Of course it is difficult to disaggregate the effects of deficiencies in micronutrients from hunger more broadly. Both hungry and mineral-deficient people tend to be weaker, more prone to illness and less intelligent. This must in turn make them poorer. Weak manual labourers produce less, and so earn less. Clever workers tend to earn more. Thus, malnourishment is not only a consequence of poverty, it is also a cause of it. Only the poor are hungry, and their hunger tends to keep them poor.

Masautso Fraxon, a 13-year-old Malawian boy, dropped out of school last year after his parents died and he was no longer being fed. He supports himself and his grandmother by doing odd jobs in other people's fields. A full day's toil can pay up to 100 kwacha ($1), but if Mr Fraxon has not eaten, he can only put in 20 kwacha-worth before he has to stop, exhausted. He then comes home, spends his paltry wages on food, and rests for the remainder of the day. At the best of times, his wages buy only slightly more calories than he expends to earn them.

Mr Fraxon's ambition, he says, is to set up his own business buying and selling fish. He says he has trouble reading and writing, but is good at sums. Your correspondent asked him what six times six was. He replied: “22”.

Western experts tend to tiptoe around the issue of how malnourishment makes people less intelligent, but local experts sometimes do not. “If your brain is stunted when you are young, that affects the decisions you make in later life. If you can't do simple arithmetic, you won't invest wisely. The cost of that will be very high,” says Tomaida Msisika, a consultant on food security in Malawi.

Sam Chimwaza, an analyst for Malawi's Famine Early Warning Systems Network, says that the reasoning ability of people in rural areas has been affected by malnutrition and it is hard for them to execute simple instructions. “They can work as servants in the city for two or three years and still not figure out how to adjust the temperature on an iron,” he says.

Several pieces of research have shown the broader economic effects of these problems. A study on Zimbabwe found that children exposed to a drought completed on average nearly five months less schooling (and were 2.3cm shorter than expected). It estimated that this resulted in a loss of 7-12% of lifetime earnings. At a somewhat larger scale, the World Bank estimates that in low-income countries, the net present value of causing children to be born of normal rather than low weight would be about $580 per child. That is more than a year's average income in a typical sub-Saharan African country.

Sadly, the battle against hunger is harder to win than it should be. Food shortages tend to occur in countries with callous, despotic rulers. That is why a 14-year-old male North Korean refugee is on average 25cm shorter than his South Korean peer. In the long term, economic growth and improved agricultural technology offer the surest cure for malnutrition. In the meantime, there are several quick, cheap fixes.

Hungry for change

Iodine deficiency, for example, can be eliminated at minimal cost by iodising salt. Progress in this area has been rapid. Since 1990, after sustained efforts by many governments, the proportion of household salt that is iodised has risen from less than 20% to more than 60%. But there is no good reason why it should not be 100%.

Similarly, iron deficiency can be tackled by fortifying flour with iron. And although it is better to get one's vitamins from normal food, pills can help. In places where vitamin A deficiency is rife, supplements can reduce child mortality by 23%.

Some of the harm caused by malnutrition is irreversible, and this is especially likely if it occurs in the womb or during the first two years of life. So it is crucial to get good food into infants early and often. Breastfeeding is the best way to do this, unless the mother is HIV positive. By one estimate, exclusive breastfeeding in the first six months of life, followed by more breastfeeding between six and 11 months, could reduce the number of deaths of children under five by 1.3m a year, or 13% of the global total.

Educating women is also important. As more women go to school, fewer of their children end up malnourished. A study of 63 countries by Lisa Smith and Lawrence Haddad, of the International Food Policy Research Institute in Washington, found that improvements in women's education and life expectancy relative to men's helped to reduce the proportion of children who were malnourished by 50% between 1970 and 1995.

Many mothers, however, still know too little about nutrition to make the best use of the food that is available to them. Poor people are often tremendously knowledgeable about the environment in which they live, but they are also usually reluctant to try anything new. Malawians, for example, have an attachment to *nsima* (maize porridge) that strikes outsiders as nearly religious in its intensity. Ask a Malawian if he has eaten today, and if he has not eaten *nsima*, he will probably say “no”.

Patricia Saukila, who works for the WFP in Lilongwe, the Malawian capital, says there is a lot of resistance to dietary change. People do not rear enough chickens and goats, she says, and even if they do they tend to sell them to buy maize rather than eat them. The result is a great deal of protein deficiency, visible in the swollen limbs of so many of the children.

One way to tackle dietary conservatism is to concoct tasty new recipes. Aid workers in Zambia—another southern African country with a maize-porridge fixation—have fooled street children into eating vegetables by dicing them and mixing them with maize porridge. The WFP has even come up with ways to make the “fortified blended foods” it doles out more palatable. Maize-soya porridge can be pepped up with mangoes, tamarind or tomatoes. Blended flour can be baked into cakes and sweetened with bananas or molasses.

Many of the things that would ease hunger are worth doing anyway. Policies that promote economic growth or better education would be desirable even if they had no impact on nutrition. Democracy and freedom of speech are attractive in and of themselves. But it is also worth noting that rich, well-educated countries never go hungry, and that no democratic country with a free press, no matter how poor it may be, has ever suffered a famine. Unfettered reporters provide early warnings, and accountable governments know they have to respond to emergencies. The recent crushing of the independent media in Zimbabwe is one reason why the WFP expects trouble this year.

In other places, the battle against hunger is steadily being won. Better nutrition is making people cleverer and more energetic, which will help them grow more prosperous. And when they eventually join the ranks of the well off, they can start fretting about growing too fat.

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Sport

Fast and faster

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REX

Two books show the harsher side of competitive sport

FEW athletes have captured the world's attention as did Sebastian Coe and Steve Ovett in the early 1980s. These British runners shared an extraordinary talent for breaking records and beating opponents—the two yardsticks by which athletic excellence is measured. But it was their fierce rivalry, more redolent of professional boxing than middle-distance running, that transformed their clashes at the Olympics into unmissable events. A runner himself, Pat Butcher has chronicled the way these two swift men spurred each other to glory and redefined their sport in the process, though ultimately for worse rather than better.

Where did their Homeric rivalry spring from? Part was professional. Born a year apart, Mr Coe and Mr Ovett strove to excel over the same distances—the 800 metres, 1,500 metres and imperial mile. Yet contrasting backgrounds and personalities lent their battles an intriguing personal dimension. “I really cannot condone so much of Steve's behaviour on and off the track,” carped Mr Coe after his rival waved to the crowd while winning a race. The press played up the differences between Mr Ovett, the burly, brash son of a market-trader and the sensitive middle-class boy who aspired to a career in finance and is now (as happens in Britain) Lord Coe.

The rivalry began in earnest in 1978 and ended six years later in the broiling heat of the Los Angeles Coliseum. Surprisingly, the two men raced each other just seven times in 15 years. Differing training schedules were partly to blame, but so too was a reluctance on both athletes' part to meet outside big competitions. When they did clash, the result was never predictable. At the Moscow Olympics in 1980, each triumphed in the other's event. Four years later in Los Angeles, Mr Ovett collapsed with smog-induced asthma and Mr Coe sprinted into the record books by becoming the first man to retain the 1,500 metre title. Yet mostly they ran in different races and places, setting solo world records in a runners' equivalent of postal chess. For Mr Butcher, it is a tragedy that they did not compete more often.

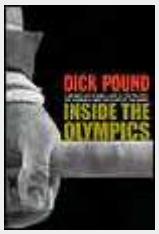
The Perfect Distance: Ovett & Coe—The Record-Breaking Rivalry
By Pat Butcher

Weidenfeld & Nicolson; 306 pages; £14.99

Buy it at
Amazon.com
Amazon.co.uk

Inside the Olympics: A Behind-the-Scenes Look at the Politics, the Scandals, and the Glory of the Games
By Dick Pound

Who was the better athlete? Mr Coe won more medals and set more world records, one of which lasted a staggering 16 years. But it was the prodigiously talented Mr Ovett who had the knack for effortlessly beating all-comers, going three years and 45 races undefeated. As one ex-competitor remembers: “Ovett beat me so many times, he owned me.”



Wiley; 288 pages; $24.95 and £16.99

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Mr Butcher offers glimpses of the sacrifices each made to reach these Olympian heights: Mr Coe's domineering father pushing his “athlete” to sprint until he threw up; Mr Ovett cutting through a cold, dark winter night, a torch's flash indicating yet another lap of effort. The frustration of injury, the humdrum of training and the difficulties of family life dogged them both throughout.

Between them they won six Olympic medals, broke 17 middle-distance records and inspired a generation of British runners to international success, dragging 13 under the magical four-minute mile in 1979. Yet Mr Butcher argues that their refusal to compete outside championships and their use of professional pacemakers to break records set an ugly precedent. Men's middle-distance running is now a “competitive wasteland” that is “so predictable it's unwatchable”. In Britain the sport is certainly in the doldrums. Its competitors in the 800 and 1,500 metres at the Athens Olympics are both a couple of seconds slower than Mr Coe and Mr Ovett were, an eternity on the oval track.

Dick Pound is the founding chairman of the World Anti-Doping Agency and served for many years on the International Olympic Committee's executive board. His insider knowledge informs his compelling book about the development of the modern Olympics and the erosion of its ideals by greed, corruption and scandal. A “self-confessed and unrepentant idealist,” Mr Pound pulls no punches. He pans figure-skating, gymnastics and boxing for their farcical judging; he condemns those who deny that doping poses a lethal threat to sport as roundly as those who cheat.

He blames such problems in part on the IOC's own shortcomings, laid embarrassingly bare in the Salt Lake City bribery scandal. At root lie the vast sums of money that the games now generate. Mr Pound is partly to blame, given his involvement in their commercialisation. Yet he staunchly defends private-sector involvement, arguing that the cash generated pays for sport in developing countries.

And, having sniped at Juan Antonio Samaranch, Mr Pound ends with grudging admiration for the IOC's controversial former president. He seems a rather tragic figure, living a spartan existence at odds with the pomp and grandeur that surrounded him. The world of sport can be lonely.

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Covering Israel

The long fall from grace

Jul 29th 2004
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AS THE bulging mailbag of many a newspaper attests, there is no subject quite like Israel's conflict with the Palestinians to provoke charges of “bias”. Around the world, Britain's *Guardian* has in recent years often been accused, most often by Americans, not only of being anti-Zionist but also of being anti-Semitic. Not surprisingly, in a work commissioned and published by Guardian Books, Daphna Baram, a left-wing Israeli journalist, acquits the paper of both charges. But this is no whitewash. Rather, it is a diligent account of a love turned sour, in which many of those who have followed the conflict over the years may find echoes of their own painful shifts of allegiance.

The poignancy of the *Guardian*'s affair with Israel stems from the Zionism of C.P. Scott, the great editor who ran the paper for nearly 60 years from 1872. Though a gentile, Scott was a friend and patron of Chaim Weizmann, the Zionist movement's foremost diplomat. Scott introduced Weizmann to Lloyd George and in 1917 gave a gushing welcome to Lord Balfour's promise of a Jewish national home in Palestine. Without one, declared Scott in an editorial, the Jews would never be safe. As for Palestine's Arabs, their rights should be respected but they were “at a low stage of civilisation”. In a letter to Weizmann he predicted that the “New Judaea” would not only be good for Palestine but serve as a “reconciling and awakening force among the neighbouring Arab peoples”.

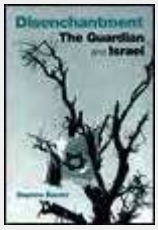
Zionism, and the *Guardian*, are older and wiser now. Having enthused too innocently about Zionism at the beginning, has the *Guardian* overshot in the other direction? If so, Ms Baram's account makes it plain that there was no sudden volte-face. The paper's Zionist ardour cooled gradually, not so much because of changing intellectual fashion in London but of changing circumstances in the Middle East. After the war of 1967, the rise of Israel's religious-nationalist right, the invasion of Lebanon and the two *intifadas*, no serious newspaper, let alone one with the “progressive” mission of the *Guardian*, could ignore the plight of the Palestinians in exile or under occupation in the West Bank and Gaza.

In half a century of reporting and editorialising about a highly complex and often heartbreaking conflict, the *Guardian* can be excused the occasional lapse. An editorial on the battle in the Jenin refugee camp in 2002 made the astonishing claim that this was a “crime...every bit as repellent” as the mass murders of September 11th. Over the decades, some *Guardian* commentators and reporters have been excessively partisan—and a few, from each side, have left or been eased out because of this. Far from glossing over such issues, Ms Baram lays bare the paper's internal quarrels. Indeed, this is the best part of her book: the resulting account of a news organisation striving in good faith over many years and under successive editors to keep its reporting accurate and its judgments fair should intrigue anyone who cares about journalism or the Middle East, and especially those who are interested in both.

By way of contrast, “Bad News from Israel”—the work of a group of academics at Glasgow University—is a pretty dismal production. And what a waste of its producers' time and effort. After reviewing more than 200 British television-news programmes and questioning more than 800 people, the researchers conclude by means of content analysis and focus groups that the Israeli point of view is over-represented and that viewers are being denied a full account of the history of the conflict.

However, massive quantification counts for nothing if the research method is flawed. The method of this

Disenchantment: The Guardian and Israel
By Daphna Baram



Guardian Books; 296 pages; £17.99

Buy it at
Amazon.co.uk

Bad News from Israel
By Greg Philo and Mike Berry

Pluto Press; 315 pages; $19.95 and £10.99

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book is to label as “pro-Israeli” any piece of reportage that does not conform to the particular anti-Israeli narrative of the researchers from Glasgow. It begins promisingly, with a potted history of the conflict acknowledging that everything about the story is hotly contested. And yet in much of what follows it is taken for granted that the present *intifada* is a war of liberation against a brutal and illegal occupation, and that any journalist who fails to hit the audience over the head with this point of view at every opportunity is falling down on the job. It is pro-Israeli bias, for example, to use the word “terrorism” to describe the indiscriminate slaughter of civilians at bus stops. Read something else.

Disenchantment: The Guardian and Israel.
By Daphna Baram.
Guardian Books; 296 pages; £17.99

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Ballet

Coup de théâtre

Jul 29th 2004
From The Economist print edition

The Bolshoi's big new departure

THE word “bolshoi” in Russian means big, but that adjective can't begin to describe the jolt that must have rocked audiences and artists alike at the world's largest ballet company when their new “Romeo and Juliet” opened in Moscow last December. Here, set to one of the most choreographed scores of the past century, a Prokofiev masterwork that has always occupied a special place in Russian hearts, was a ballet staged by—wait for it—a theatre director. And, in British Declan Donnellan, a western one at that.

Mr Donnellan's production has now made its first appearance outside Russia, as part of the Bolshoi's three-week stint at London's Royal Opera House, Covent Garden, which finishes on August 7th. It is belligerently modern in approach. But other Bolshoi favourites on the programme are served up in time-honoured style, including “Don Quixote”, “Swan Lake”, and that perennially popular display of testosterone, “Spartacus”. (The Bolshoi's fifth offering will be the one of greatest interest to balletomanes: the British premiere of “The Pharaoh's Daughter”, which dates back to 1862 but has been freshly conceived by a French choreographer, Pierre Lacotte.)

Big ballet

Such visits to Britain don't come cheap. The company is once again appearing courtesy of Lilian and Victor Hochhauser, the impresarios who first brought it to Covent Garden in 1963. They have splashed out £3m ($5.5m) to do so this summer.

There can be no doubt that the troupe is in fine terpsichorean form, with budding stars such as Svetlana Zakharova following where Maya Plisetskaya and Galina Ulanova famously led. And “R&J”? Well, Mr Donnellan by his own admission is no choreographer, so he has devised his minimalist staging in conjunction with a Moldovan steps arranger, Radu Poklitaru, whose highly derivative work—a splash of Jerome Robbins here, Angelin Preljocaj there—prompted both walk-outs and cheers on opening night.

But the real merit of this individual production is the signals it gives: a company rightly feted for its past is also willing to look to the future.

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About sponsorship

George Sand

What a woman

Jul 29th 2004 | PARIS
From The Economist print edition

France remembers a prolific author

AS WRITERS go, few lives are as well known as that of George Sand. Cross-dresser, divorcée, writer under a man's name, lover of Alfred de Musset and Frédéric Chopin: no wonder the interest in Sand's life has long been much greater than the attention given to her work.

However, as France remembers the bicentenary of her birth this summer with an exhibition at the Musée de la Vie Romantique in Paris, a music festival at her home in Nohant and more exhibits, conferences, plays and concerts throughout the year, Sand studies are moving on. It was Sand's writing, rather than her colourful life, that scholars gathered to discuss at a week-long conference held at the beginning of July in Cerisy-la-Salle. And Elizabeth Harlan, author of a forthcoming new biography of Sand, ranks her as in the same league as Flaubert or Balzac.

Amandine Aurore Lucie Dupin de Francueil was born on July 1st 1804 in a modest flat in Paris, daughter of a prostitute and an aristocrat. Her father, who descended through illegitimacy from the king of Poland, had married her mother barely a month earlier, defying his mother's will. When little Aurore was four years old, her father died. She was taken to Nohant, near Châteauroux, to be raised by her paternal grandmother who offered her mother a monthly stipend and a flat in Paris for giving up her daughter. The theme of abandonment—the early loss of her father and mother—ran through her life and her writings, says Ms Harlan.

Aurore started to write after the break-up of her marriage to Baron Casimir Dudevant with whom she had two children: Maurice, in 1823, and Solange in 1828. She wrote her first book, “Rose et Blanche”, with Jules Sandeau, one of the first of a string of lovers. After Sandeau refused to co-author another book, she wrote “Indiana” on her own under the pseudonym G. Sand. The love story, published in 1832, was an immediate success and the beginning of a prodigious career.

The renaissance of interest in George Sand began in 1976, the centenary of her death. Sand became an inspiration for women of the baby-boom generation, says Françoise Chandernagor, a writer who chairs the committee co-ordinating France's Sand commemorations. She could write, live a man's life and still be mother, lover and hostess. Some say Sand put more of her imagination into her life than her writing, says Ms Chandernagor. This only makes her more admirable.

The sheer magnitude of Sand's output inspires awe. At the rate of 20 manuscript pages a day, Sand wrote some 80 novels, 25 plays, and countless articles and short stories. She exchanged thousands of letters with some 2,000 correspondents, among whom were Heinrich Heine, Eugène Delacroix, and both Alexandre Dumases—father and son. Georges Lubin, a former schoolteacher, started editing the letters in the 1960s. He and his wife almost completed 26 volumes of some 1,000 pages, published by Classiques Garnier, before his death in 2000. Another hand edited the final tome, published this year.

George Sand's work is of uneven quality. No wonder: writers were paid by the word at the time, creating an incentive to produce quantity rather than quality. Annabelle Rea, head of the George Sand Association, considers her autobiography (which she started to write at the age of 43), and “Consuelo” and “La Comtesse de Rudolstadt”, two novels written in 1842 and 1843, her finest works. Sand's best-known books are the *romans champêtres*. Though these novels describing rural life are not really books for children, “Le Petite Fadette” and “François Le Champi” are part of French schoolchildren's curriculum. Marcel Proust mentions “François Le Champi” in “A la recherche du temps perdu” when little Marcel, the narrator, is given the book by his grandmother.

Now, a Sand dictionary is in the making. One publisher, Honoré Champion, is re-editing her complete

works. Another, Gallimard, re-edited her autobiography and some of her letters this year. Sand's life will continue to intrigue—and maybe more newly converted “Sandiens” will actually read her books.

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About sponsorship

Pirates

Primitive terrorists

Jul 29th 2004
From The Economist print edition

THE business of piracy changed utterly between 1680, when William Dampier set out in pursuit of Spanish barques, and the 1720s, when rascals such as Blackbeard terrorised the Atlantic. Dampier and his fellow privateers were amateurish, eclectic in their interests, and mostly inoffensive. The outlaw pirates of the early 18th century, by contrast, were single-minded and lethally effective. These two books take after their subjects.

Diana and Michael Preston concluded that, in order to understand Dampier, they should retrace some of his steps. They cannot have got far. Dampier was an adventurer in the Walter Ralegh mould—at one point, he set sail from Mexico to Guam, not knowing whether it was 5,500 or 7,000 miles away. As a raider of Spanish gold, Dampier was inept, seizing his first true treasure ship at the age of 60. That does not seem to have discouraged him, however. The buccaneer's first love was natural history, a subject to which he devoted much time and colourful prose. Having wowed the British public with tales of exotic lands, he retired and died, apparently safe in his own bed.

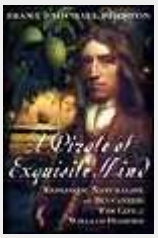
Such a quiet end was not the fate of the men (and two women) who ran up the Jolly Roger in the early 18th century. By that point, the Atlantic trade in tobacco, sugar and slaves had become so obscenely profitable that the governments of Europe avoided antagonising each other. State-sanctioned piracy of the sort that Dampier had conducted came to an end, although pirates did not disappear. Instead, they turned on their creators, making, in the words of the pirate Howell Davis, “a Declaration of War against the whole World”. Between the 1710s and 1726, when the forces of law and order finally triumphed, anything with a sail was a target.

Piracy in the early 18th century combined brute force with careful marketing of the lawless lifestyle. In one of the practical details with which Marcus Rediker's book is studded, he points out that a standard merchant ship contained just 15 to 18 exhausted, brutalised workers. Pirate ships were crammed with as many as 90—enough to overpower any crew that offered resistance, which few did. Many sailors gladly joined their assailants: for them, a short life as a pirate sounded better than ill-paying drudgery.

Mr Rediker's boldest claim is that piracy was as much about liberty as plunder. Isolated from the forces of law and order on their floating worlds, pirates created a new, more egalitarian society. Communal harmony was upheld by statutes: all booty to be carefully parcelled out, with the captain receiving no more than twice the ordinary share; all officers to be elected by acclaim; all members of crew to “stand by” one another in danger. There were rules for captives, too. Captains with reputations for brutality, or even those from cities that had recently executed pirates, were routinely killed, while others were cautioned and set free.

If all this sounds a bit too good to be true, it probably is. Pirates, who were not only primitive communists but also holders of enlightened views on blacks and transvestites, seem to be taking over from E.P. Thompson's peasants as the folk heroes of left-wing historians. Over-simplification is inevitable: Mr Rediker mostly overlooks the possibility that his sources are tainted by romanticism, for example. But his is nonetheless a much better book than the Prestons'. The author spies a rich target,

A Pirate of Exquisite Mind: The Life of William Dampier—Explorer, Naturalist and Buccaneer
By Diana and Michael Preston



Walker & Company; 368 pages; $27. Doubleday; Â£16.99

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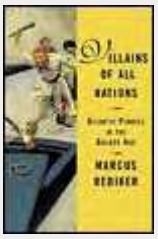
Villains of All Nations: Atlantic Pirates in the Golden Age
By Marcus Rediker



Beacon Press; 256 pages; $24. Verso; 240 pages; £18.99

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runs up his flag, and goes straight after it.

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About sponsorship

New fiction

The physics of love

Jul 29th 2004
From The Economist print edition

TIMOTHY O'GRADY'S shamelessly overblown yet irresistibly engaging third novel begins when an elderly Pole spots a young Irishman frowning over a copy of Werner Heisenberg's “Physics and Philosophy” in a Krakow café. The two men strike up a conversation which turns out to last for 11 hours.

Light
By Timothy O'Grady

Secker & Warburg; 266 pages; £14.99

Buy it at
Amazon.com
Amazon.co.uk

The Irishman—identified, like James Bond's boss, only as M—explains that he is driving across Europe in search of the love of his life, a stunning blonde of uncertain origin called Hanna, who has abandoned him. M met Hanna in Barcelona but thinks she might be Finnish. When the two men say goodbye at sunrise, M staggers back to his car and gamely sets off for Finland.

Too late, the old man realises that he has accidentally pocketed three of M's photographs of Hanna. Intrigued, and with no way of returning the pictures, he sets out to fill in the gaps in M's story. Along the way he has occasion to reflect on his own uncannily similar experience of love and loss as a younger man. The great love of his life, he reveals, was a brunette named Angelina, whom he met in East Berlin in the 1950s. A fine romance blossomed. Then one day, without a word of explanation, she upped and left, never to be seen again.

Mr O'Grady lavishes pages of verbiage on the mind-bending beauty of both Hanna and Angelina. His fluency with romantic cliché is undeniable and frequently gets the better of him: “She felt her beauty deeply. You could see it in the way she looked at a painting or a waterfall.”

But it's not all bursts of light and gasps of delight and explosions of sexual ecstasy. History and science provide shadow and contrast. The second world war and the rise and fall of communism in eastern Europe are shoehorned in as part of the narrator's background. The theories of Pythagoras, Copernicus, Newton and Einstein are ruthlessly (if not altogether successfully) co-opted as a means of explaining the mechanics of sexual attraction: “He was making a new world, particle by particle.”

Physics, though, turns out to be a poor cure for a broken heart. It does neither M nor the narrator much good. Dancing and vodka seem to be more effective. But Mr O'Grady's interweaving of pop science and romantic fiction is skilfully and enjoyably done: lyrics by Bob Dylan, melody by Burt Bacharach.

Light.
Secker & Warburg; 266 pages; £14.99

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About sponsorship

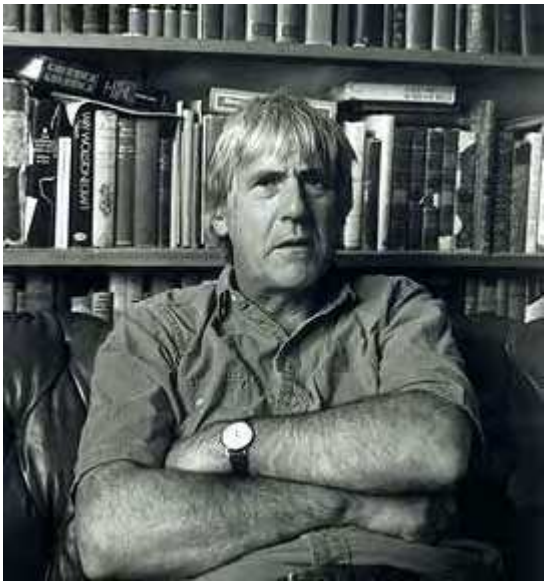
Obituary

Paul Foot

Jul 29th 2004
From The Economist print edition

Paul Foot, a British investigative journalist, died on July 18th, aged 66

Guardian



"THERE are more people walking the streets of Britain who have been freed from prison by Paul Foot than by any other person." Mr Foot was far from being vain or self-seeking, but he must have been pleased by this compliment from one of his editors at the *Daily Mirror*. It was a vindication of his work as a campaigning journalist whose efforts on behalf of victims of injustice were not only tireless and brave, but also capable of bringing about results that would change people's lives. Though he wrote articles of every kind, and books too, his innovation was the investigative column, a device that worked because it was based on hard research rather than mere prejudice and polemic.

Not that he was short of prejudice and polemic. Far from it: they were the starting-point of all his inquiries, for Mr Foot was a committed socialist of a largely unreconstructed kind, with a particular admiration for Leon Trotsky. Indeed, many of his energies were devoted to the cause of the Socialist Workers Party, a Trotskyite outfit. How could anyone with views such as his produce balanced journalism? Mr Foot could not. He did not even try. But that was not the point. He still could, and did, produce excellent work. Doggedly—the word aptly describes the terrier in him—he dug out information that powerful people did not want to see published.

The tradition of radical journalism goes back a long way in Britain, to William Hazlitt, William Cobbett, Tom Paine, John Wilkes and beyond. These 18th- and 19th-century essayists and pamphleteers were not self-described neutral observers who meticulously separated facts from opinions, discarded the opinions and then left readers to form their own judgments. They were committed campaigners who had a point of view and made no apologies for expressing it. Mr Foot was in that tradition.

He was also in the tradition of British satire, whose most notable exponents have usually been writers, such as Jonathan Swift, or caricaturists, such as James Gillray and Thomas Rowlandson. In the 1960s, the genre enjoyed a wonderful renaissance, bursting out on every front—the stage ("Beyond the Fringe"), night clubs (The Establishment, in London), television ("That Was The Week That Was") and, most enduringly, the magazine *Private Eye*.

Born to rebel

By circumstance and breeding, Mr Foot slipped easily into this world of satire and dissent. His grandfather, Isaac Foot, a devout Methodist, had been a Liberal MP, as was his uncle Dingle, though he later defected to Labour. Another uncle, John, became a Liberal peer, and a third, Michael, was to lead the Labour Party. His father, Hugh (later Lord Caradon), was a diplomat and colonial servant whose career included terms as governor of Cyprus and Britain's ambassador to the United Nations.

The taste for satire started at Shrewsbury School, where he wrote for the school newspaper, as did his near contemporaries, Christopher Booker, Richard Ingrams and Willie Rushton. This trio went on to found *Private Eye* in 1961, which Mr Foot was to join six years later. Though he wrote for many other publications over the years—the *Daily Record* in Glasgow, the *Daily Mirror*, the *Guardian* among them—

and edited the magazine *Isis* while up at Oxford in 1961 and later *Socialist Worker*, he never cut his links with the *Eye*.

Yet Mr Foot was unlike the others on *Private Eye*. For most of them, such as John Wells, an Oxford friend, the main aim was to puncture pomposity and make people laugh. Mr Foot had a sense of humour and could be a devastating exponent of mockery, but he was above all a polemicist and muck-raker. His contributions to the *Eye* were not cartoons like Rushton's or spoof diaries like Wells's; they were the scandalous revelations in his “Footnotes” column.

These, too, were different from the classical writings of British radical journalists, and they—and Mr Foot's other investigative books and articles—were his real contribution to public affairs. To most people his politics seemed potty. His revelatory journalism was different. Though equal scepticism greeted his first inquiries into potential scandals, his diligence and persistence nearly always won him admiration in the end. Those who fell foul of him included politicians (Jonathan Aitken, Jeffrey Archer, Reginald Maudling), union leaders (Clive Jenkins), architects (John Poulson), journalists (notably his boss at the *Mirror*, David Montgomery), businessmen (the list is long), as well as disc jockeys, civil servants and countless others. His exertions to right injustice were equally impressive: the Birmingham Six, the Bridgewater Four and the Cardiff Three were all freed from prison after campaigns led by Mr Foot.

On two occasions, Mr Foot stood for public office. The first time, in 1977, when he tried for Parliament, he gathered only 377 votes. He did better in 2002, as candidate for mayor of Hackney, in east London, but still came third. Clearly, his heart was not in it on either occasion. He wrote, after all, that “responsible office in capitalist society...leads inevitably to arbitrary and demeaning behaviour towards others.” Perhaps he really agreed with one of his heroes, Percy Bysshe Shelley, that “Poets are the unacknowledged legislators of the world.” So far as is known, Mr Foot did not unearth a scandal involving poetry.

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Overview

Jul 29th 2004
From The Economist print edition

Oil prices hit a new high on July 28th as the benchmark US light-crude contract topped $43 a barrel after Yukos, Russia's biggest oil company, claimed its tax dispute with the government might halt production. This was later denied by tax officials. London Brent crude rose to its highest level since 1990.

Consumer confidence jumped in **America** to its highest level for two years. The Conference Board's index rose from 102.8 in June to 106.1 in July. In another indication of consumer confidence, there were record sales of existing homes in June, which rose to an annual rate of 6.95m units.

However, other figures suggested that **America's** economic recovery may be losing some momentum. Durable-goods orders rose by 0.7% in June, a considerably smaller rebound than expected after monthly declines in April and May. And the Federal Reserve's regional survey of economic conditions—the "beige book"—found that growth in June and early July moderated in several parts of the country. Manufacturing firms continued to report brisk increases in output but retail sales were generally sluggish.

Japan's industrial production fell by 1.3% in June from May—a bigger decline than analysts were expecting. Retail sales fell again in June, raising doubts about the sustainability of the recovery in consumer spending.

Business confidence is rising in several European countries. In **Germany**, the Ifo business-climate index rose in July after falling in May and June. The improvement was especially marked in wholesaling, although construction remained weak. The expectations component of the index rose for the first time since January.

In **France**, too, business confidence has taken a turn for the better. The INSEE index rose from 104 in June to 106 in July, the highest for over three years. And in **Belgium**, the National Bank's business-confidence indicator, often seen as a measure for the entire euro area, rose in July to its highest level since December 2000.

In **Britain**, there was fresh evidence about the strength of the economic upturn. GDP grew by 3.7% in the year to the second quarter, the fastest rate for almost four years. Consumers are continuing to spend freely in the shops: retail sales volume rose by 7.2% in the 12 months to June.

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Output, demand and jobs

Jul 29th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.2	Q1	+ 0.9	+ 3.5	+ 3.4	– 1.1	Q1	+ 7.7	Q1	5.6	Jun	6.1
Austria	+ 0.5	Q1	+ 0.8	+ 1.6	+ 2.1	+ 5.6	Apr	+ 2.6	Apr	4.2	Jun	4.4
Belgium	+ 2.0	Q1	+ 3.0	+ 2.2	+ 2.1	+ 3.1	May	– 2.5	May	12.4	Jun†	11.6
Britain	+ 3.7	Q2	+ 3.8	+ 3.2	+ 2.7	+ 1.3	May	+ 7.2	Jun	4.7	May††	5.0
Canada	+ 1.6	Q1	+ 2.4	+ 3.0	+ 3.4	+ 2.8	Apr	+ 4.9	Mar	7.3	Jun	7.7
Denmark	+ 1.4	Q1	+ 3.8	+ 1.9	+ 2.2	+ 1.7	May	+ 1.5	May	6.5	May	6.0
France	+ 1.7	Q1	+ 3.0	+ 2.2	+ 2.2	+ 3.4	May	– 1.1	May	9.8	May	9.7
Germany	+ 1.5	Q1	+ 1.8	+ 1.4	+ 1.7	+ 4.2	May	– 4.0	May	10.5	Jun§	10.6
Italy	+ 0.8	Q1	+ 1.8	+ 1.2	+ 1.8	+ 2.7	May	– 1.6	Apr	8.5	Jan	8.9
Japan	+ 5.6	Q1	+ 6.1	+ 4.4	+ 2.2	+ 8.9	Jun	– 2.4	May	4.6	May	5.4
Netherlands	+ 0.9	Q1	+ 2.8	+ 1.3	+ 1.8	– 0.8	May	– 1.7	Apr‡	6.4	Jun**	5.3
Spain	+ 2.8	Q1	+ 2.6	+ 2.8	+ 2.8	+ 2.9	May	+ 1.2	May	11.1	May	11.3
Sweden	+ 2.6	Q1	+ 2.6	+ 2.8	+ 2.5	+ 7.5	May	+ 5.4	May	5.8	Jun†	4.8
Switzerland	+ 1.5	Q1	+ 1.6	+ 1.9	+ 2.0	+ 4.5	Q1	– 3.5	May	3.7	Jun†	3.6
United States	+ 4.8	Q1	+ 3.9	+ 4.6	+ 3.6	+ 5.6	Jun	+ 7.3	May	5.6	Jun	6.3
Euro area	+ 1.3	Q1	+ 2.3	+ 1.8	+ 2.0	+ 3.9	May	– 0.9	May	9.0	May	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.7	Q1	+ 3.0	na	na	+ 7.2	May	+ 5.7	Apr	8.9	Jun†	9.6
Greece	+ 4.0	Q1	+ 3.0	na	na	+ 0.3	May	+ 5.6	Apr	na		na
Iceland	+ 4.9	Q1	na	na	na	na		na		3.3	May†	3.6
Ireland	+ 6.1	Q1	na	na	na	– 0.2	May	+ 5.4	May	4.3	Jun	4.7
Luxembourg	+ 2.1	2003	na	na	na	– 1.2	Dec	+ 0.3	Feb	4.0	May	3.6
New Zealand	+ 4.4	Q1	+ 8.1	na	na	+ 5.5	Q1	+ 8.0	Q1	4.3	Q1	4.9
Norway	+ 2.9	Q1	+ 3.9	na	na	+ 5.5	May	+ 1.2	May	4.5	Q1	4.4
Portugal	+ 0.1	Q1	+ 2.4	na	na	– 1.8	May	+ 0.5	May	6.4	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 2.7% in Jun. §EU harmonised rate 9.8% in Jun. **Apr-Jun.

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Prices and wages

Jul 29th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.5	Q2	+ 2.7	+ 2.5	+ 2.6	+ 2.8	Q2	+ 0.2	+ 5.1	Q1	+ 4.4
Austria	+ 2.3	Jun	+ 1.1	+ 1.6	+ 1.5	+ 5.9	Jun	+ 1.7	+ 2.2	Jun	+ 2.1
Belgium	+ 2.3	Jun	+ 1.6	+ 1.7	+ 1.5	+ 4.2	Jun	– 0.8	+ 2.3	Apr	+ 1.7
Britain	+ 1.6	Jun*	+ 1.1	+ 1.5	+ 1.9	+ 2.6	Jun	+ 1.1	+ 4.3	May†	+ 3.2
Canada	+ 2.5	Jun	+ 2.6	+ 1.9	+ 2.1	+ 5.5	May	– 1.9	+ 2.6	May	+ 3.0
Denmark	+ 1.1	Jun	+ 2.2	+ 1.3	+ 1.9	+ 2.4	Jun	– 0.2	+ 3.3	Q1	+ 3.9
France	+ 2.4	Jun	+ 2.0	+ 2.1	+ 1.6	+ 2.2	Jun	+ 0.9	+ 2.8	Q1	+ 2.9
Germany	+ 1.8	Jul	+ 0.9	+ 1.6	+ 1.2	+ 3.5	Jun	nil	+ 1.8	May	+ 1.4
Italy	+ 2.4	Jun	+ 2.7	+ 2.2	+ 2.1	+ 2.9	May	+ 1.6	+ 3.3	Jun	+ 1.7
Japan	– 0.5	May	– 0.2	– 0.1	+ 0.2	+ 1.4	Jun	– 1.1	+ 1.2	May	+ 2.4
Netherlands	+ 1.4	Jun	+ 1.9	+ 1.5	+ 1.4	+ 4.0	May	+ 0.6	+ 1.5	Jun	+ 2.9
Spain	+ 3.5	Jun	+ 2.8	+ 2.8	+ 2.6	+ 4.0	Jun	+ 0.9	+ 3.2	Q1	+ 4.9
Sweden	+ 0.5	Jun	+ 1.8	+ 0.9	+ 1.6	+ 1.2	May	– 1.4	+ 1.5	Apr	+ 3.1
Switzerland	+ 1.1	Jun	+ 0.6	+ 0.7	+ 1.1	+ 1.5	Jun	– 0.7	+ 1.4	2003	+ 1.8
United States	+ 3.3	Jun	+ 2.1	+ 2.5	+ 2.2	+ 4.0	Jun	+ 2.7	+ 2.0	Jun	+ 2.7
Euro area	+ 2.4	Jun	+ 1.9	+ 2.0	+ 1.7	+ 2.4	May	+ 1.4	+ 2.5	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	– 0.1	Jun	+ 0.8	na	na	+ 1.1	Jun	– 0.3	+ 4.1	Q1	+ 4.1
Greece	+ 2.8	Jun	+ 3.8	na	na	+ 3.1	May	+ 2.4	na		na
Iceland	+ 3.6	Jul	+ 1.6	na	na	+ 5.0	Jun	+ 3.2	+ 5.1	Jun	+ 5.6
Ireland	+ 2.3	Jun	+ 3.5	na	na	– 0.1	May	–10.0	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.6	Jun	+ 1.8	na	na	+ 7.7	May	+ 2.7	– 0.4	Dec	+ 0.7
New Zealand	+ 2.4	Q2	+ 1.5	na	na	– 0.6	Q1	– 1.3	+ 2.2	Q1	+ 2.3
Norway	+ 1.3	Jun	+ 1.7	na	na	+12.0	Jun	+ 2.8	+ 4.6	Q1	+ 5.3
Portugal	+ 2.7	Jun	+ 3.3	na	na	+ 2.4	Jun	+ 0.8	+ 1.3	May	– 1.9

*New series. RPI inflation rate 3.0% in Jun. †Mar-May.

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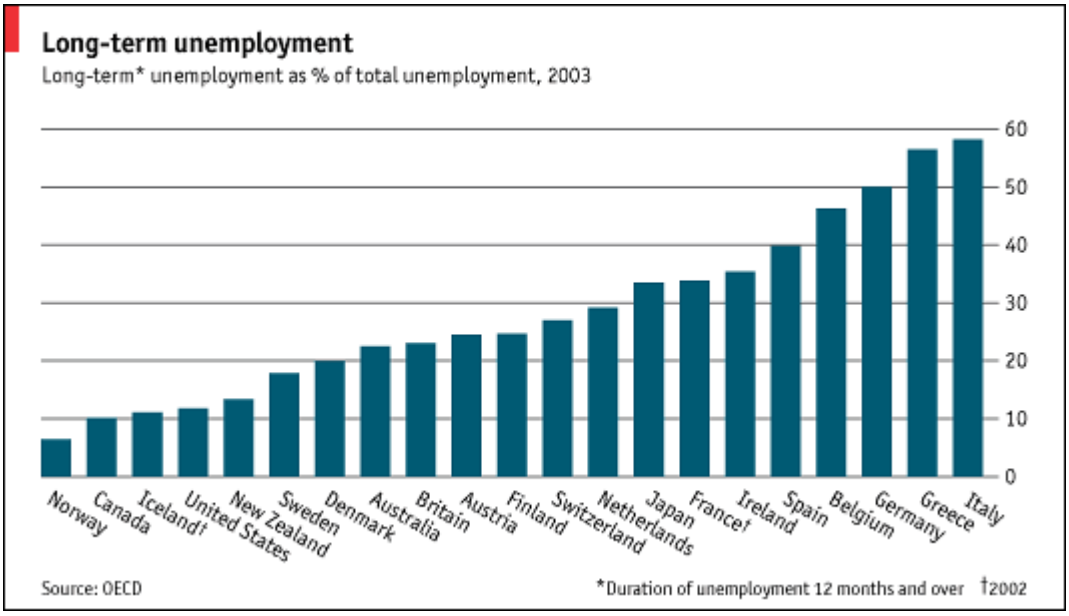
Long-term unemployment

Jul 29th 2004
From The Economist print edition



When Americans become unemployed, relatively few stay jobless for long. That is not the case in several European countries such as Italy and Germany. This is one reason why their labour markets are malfunctioning. The longer that people are out of work, the less effectively they compete with those in employment, so overall unemployment has to be higher in order to keep wage inflation under control.

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Money and interest rates

Jul 29th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 28th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.3	+10.3	May	5.47	4.76	5.30	5.89	5.51	6.65
Britain	+ 6.4	+ 7.8	Jun	4.88	3.38	4.90	5.17	4.43	5.90
Canada	+15.6	+ 8.1	Jun	2.09	2.81	3.26	4.89	4.86	6.30
Denmark	+ 7.7	+ 9.1	Jun	2.25	2.25	2.63	4.39	4.24	5.46
Japan	+ 3.6	+ 1.8	Jun	0.03	0.01	0.20	1.84	0.95	1.94
Sweden	+ 2.6	+ 0.8	Jun	1.99	2.67	2.90	4.56	4.41	3.02
Switzerland	+ 6.6	+ 4.2	Jun	0.53	0.29	1.30	2.88	2.49	2.62
United States	+ 5.0	+ 5.9	Jun	1.53	1.03	2.73	4.58	4.31	6.02
Euro area†	+ 9.6	+ 5.4	Jun	2.12	2.12	2.62	4.25	4.01	4.10

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.32%, Japan No. 261 1.85%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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About sponsorship

The Economist commodity price index

Jul 29th 2004
From The Economist print edition

1995=100

	Jul 20th	Jul 27th*	% change on one month	% change on one year
Dollar index				
All items	93.0	90.4	– 4.6	+17.5
Food	87.9	84.7	– 8.0	+11.8
Industrials				
All	99.9	98.0	– 0.3	+25.1
Nfa†	92.4	92.1	– 0.2	+15.4
Metals	106.3	102.9	– 0.4	+33.6
Sterling index				
All items	79.1	78.1	– 5.5	+ 4.7
Euro index				
All items	98.8	98.5	– 4.2	+12.0
Yen index				
All items	107.2	106.6	– 2.4	+ 9.0
Gold				
$ per oz	399.75	388.05	– 1.5	+ 7.1
West Texas Intermediate				
$ per barrel	40.40	41.84	+17.5	+38.5

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jul 29th 2004
From The Economist print edition

Market indices

	Jul 28th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,510.3	3,562.8	3,274.9	– 0.5	– 1.5	+ 6.2	– 1.6
Austria (ATX)	2,040.1	2,040.1	1,568.9	+ 1.6	nil	+32.0	+26.1
Belgium (Bel 20)	2,440.1	2,517.3	2,244.2	– 0.9	–33.7	+ 8.7	+ 3.8
Britain (FTSE 100)	4,356.2	4,575.7	4,287.0	– 0.5	–37.1	– 2.7	– 0.9
Canada (Toronto Composite)	8,354.0	8,898.8	8,123.5	– 1.2	–26.6	+ 1.6	– 1.4
Denmark (KBX)	234.0	241.3	219.0	– 2.0	–22.5	+ 9.6	+ 4.7
France (SBF 250)	2,448.3	2,594.4	2,411.5	– 1.6	–44.2	+ 1.5	– 3.1
(CAC 40)	3,575.9	3,811.4	3,465.3	– 1.7	–48.3	+ 0.5	– 4.0
Germany (DAX)	3,807.2	4,151.8	3,726.1	– 1.8	–52.8	– 4.0	– 8.3
Italy (BCI)	1,283.4	1,340.3	1,239.5	– 1.5	–41.2	+ 2.1	– 2.5
Japan (Nikkei 225)	11,204.4	12,163.9	10,365.4	– 2.0	–71.2	+ 4.9	+ 0.7
(Topix)	1,129.6	1,217.9	1,022.6	– 2.1	–60.8	+ 8.2	+ 3.8
Netherlands (AEX)	324.3	364.8	320.7	– 2.1	–53.8	– 3.9	– 8.3
Spain (Madrid SE)	826.9	881.7	808.0	– 2.5	–27.9	+ 2.3	– 2.3
Sweden (Affarsvarlden Gen)	199.5	218.1	188.5	+ 0.8	–50.2	+ 5.9	– 0.6
Switzerland (Swiss Market)	5,514.7	5,934.4	5,429.7	– 0.8	–34.4	+ 0.5	– 2.6
United States (DJIA)	10,117.1	10,737.7	9,906.9	+ 0.7	–13.7	– 3.2	– 3.2
(S&P 500)	1,095.4	1,157.8	1,084.1	+ 0.1	–28.3	– 1.5	– 1.5
(NASDAQ Comp)	1,858.3	2,153.8	1,839.0	– 0.9	–63.2	– 7.2	– 7.2
Europe (FTSE Eurotop 300)*	968.8	1,026.2	957.0	– 1.0	–43.2	+ 1.1	– 3.4
Euro area (FTSE Ebloc 100)*	811.8	888.3	802.8	– 1.9	–47.6	– 2.4	– 6.8
World (MSCI)†	1,017.9	1,085.8	997.0	– 1.2	–29.7	– 1.8	– 1.8
World bond market (Citigroup)‡	588.8	619.5	575.1	– 1.3	– 5.0	– 2.5	– 2.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jul 29th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2004	Current account The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Jul 28th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Jul 28th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.9	Jun	− 33.0	Q1	− 5.3	− 4.7	83.6	82.8	1.43	1.53	2.61	1.72	1.28	0.5
Austria	− 0.5	Apr	− 2.0	May	− 0.4	− 0.5	103.0§	103.0	0.83	0.88	1.51	–	0.74	-1.3
Belgium	+ 21.9	May	+ 12.2	Mar	+ 3.4	+ 3.5	103.0§	103.4	0.83	0.88	1.51	–	0.74	-0.2
Britain	− 91.3	May	− 39.2	Q1	− 2.6	− 2.6	106.4	99.0	0.55	0.62	–	0.66	0.49	-2.9
Canada	+ 46.7	May	+ 20.9	Q1	+ 2.4	+ 1.8	86.9	83.8	1.33	1.40	2.43	1.60	1.19	1.2
Denmark	+ 10.3	May	+ 6.9	May	+ 2.5	+ 2.4	106.4	106.6	6.17	6.53	11.3	7.43	5.53	0.9
France	+ 4.4	May	+ 2.5	May	+ 0.8	+ 0.8	106.5§	106.8	0.83	0.88	1.51	–	0.74	-3.8
Germany	+179.6	May	+ 81.3	May	+ 2.6	+ 2.6	104.2§	104.5	0.83	0.88	1.51	–	0.74	-3.7
Italy	+ 3.4	May	− 15.2	May	− 0.9	− 0.8	76.0§	76.1	0.83	0.88	1.51	–	0.74	-3.1
Japan	+124.5	May	+160.7	May	+ 3.4	+ 3.4	132.5	126.5	112	121	204	135	–	-7.1
Netherlands	+ 33.0	May	+ 18.7	Q1	+ 2.8	+ 2.9	102.5§	102.9	0.83	0.88	1.51	–	0.74	-3.1
Spain	− 58.7	Apr	− 28.3	Apr	− 2.9	− 3.1	77.1§	77.4	0.83	0.88	1.51	–	0.74	0.3
Sweden	+ 22.6	Jun	+ 21.2	Q1	+ 6.3	+ 6.0	80.1	80.6	7.67	8.06	14.0	9.23	6.86	0.2
Switzerland	+ 7.8	Jun	+ 37.5	Q4	+10.8	+10.6	112.6	111.7	1.28	1.36	2.33	1.54	1.14	-1.6
United States	−572.9	May	−537.3	Q1	− 5.2	− 5.0	98.0	104.6	–	–	1.82	1.20	0.90	-4.7
Euro area	+107.6	May	+ 58.4	May	+ 0.5	+ 0.5	89.8	90.5	0.83	0.88	1.51	–	0.74	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.0	May	+ 10.2	May	na	na	82.0§	82.2	0.83	0.88	1.51	–	0.74	1.6
Greece	− 27.5	May	− 10.4	May	na	na	59.5§	59.7	0.83	0.88	1.51	–	0.74	-3.2
Iceland	− 0.3	May	− 0.7	Q1	na	na	95.2**	98.2	71.7	77.0	131	86.3	64.1	0.2
Ireland	+ 42.7	Apr	− 2.1	Q1	na	na	94.2§	95.5	0.83	0.88	1.51	–	0.74	-0.5
Luxembourg	− 3.9	Apr	+ 3.2	Q1	na	na	103.0§	103.4	0.83	0.88	1.51	–	0.74	-1.8
New Zealand	− 2.2	Jun	− 3.4	Q1	na	na	101.3	99.8	1.59	1.71	2.90	1.91	1.42	2.9
Norway	+ 29.0	Jun	+ 29.4	May	na	na	95.1	98.2	7.01	7.20	12.8	8.44	6.27	10.4
Portugal	− 14.9	Apr	− 8.8	May	na	na	93.3**	92.9	0.83	0.88	1.51	–	0.74	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, April average.

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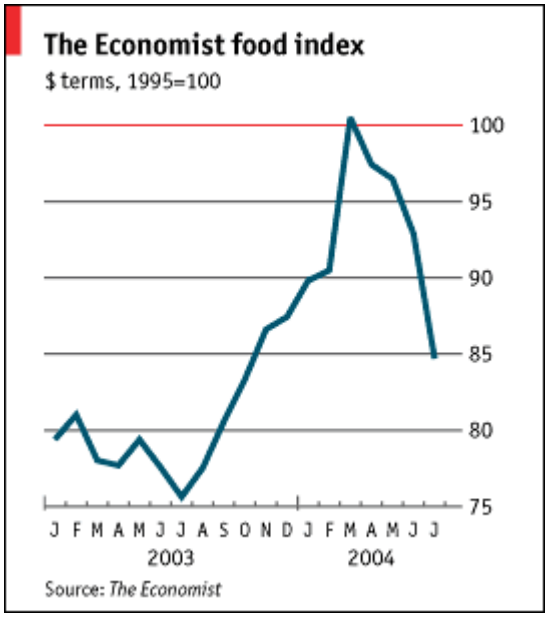
The Economist food index

Jul 29th 2004
From The Economist print edition

World food prices have fallen by 16% from a seven-year high in March. Wheat, maize and soyabean prices have dropped sharply on expectations of good harvests in America.



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Overview

Jul 29th 2004
From The Economist print edition

Turkey's current-account deficit widened to $11.3 billion in the 12 months to May. Booming exports contributed to a rise in **Brazil's** surplus to $7.9 billion in the year to June.

Industrial production in **Russia** rose by 9.2% in the year to June, up from 5.5% in the year to May. In **Taiwan**, industrial output rose by 15.7% in the 12 months to June. In **Indonesia**, production increased by an even heftier 24% in the year to May.

After several years of falling prices, deflation appears to be ending in **Hong Kong**. Consumer prices dipped by just 0.1% in the year to June.

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Russia

Jul 29th 2004
From The Economist print edition

Helped by high oil prices, Russia will grow by 7.0% in 2004 and by 5.8% in 2005. However, the OECD says that growth will slacken unless the economy becomes less reliant on oil production. Reform of the state-dominated natural-gas industry is therefore an urgent priority. Continuing fiscal discipline is vital because the public finances are so vulnerable to a fall in oil prices. Greater security of property rights is essential if growth is to be sustained.

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Economy

Jul 29th 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+16.2	Jun	+ 5.0	Jun	+15.3	Jun	+45.9	2003	470.6	Jun
Hong Kong	+ 6.8	Q1	+ 1.8	Q1	– 0.1	Jun	–13.0	Jun	+14.3	Q1	120.8	Jun
India	+ 8.2	Q1	+ 6.2	May	+ 2.8	May	–16.9	Jun	+ 8.7	Q1	114.1	Jun
Indonesia	+ 4.5	Q1	+24.0	May	+ 6.8	Jun	+27.8	May	+ 7.4	Q4	35.3	May
Malaysia	+ 7.6	Q1	+12.8	May	+ 1.3	Jun	+20.1	May	+13.0	Q1	53.9	Jun
Philippines	+ 6.4	Q1	– 1.6	May	+ 5.1	Jun	– 1.3	May	+ 3.9	Mar	13.0	Jun
Singapore	+11.7	Q2	+19.4	Jun	+ 2.3	Jun	+15.1	May	+27.6	Q1	101.6	Jun
South Korea	+ 5.3	Q1	+12.3	Jun	+ 3.6	Jun	+27.5	Jun	+24.6	Jun	167.0	Jun
Taiwan	+ 6.3	Q1	+15.7	Jun	+ 1.8	Jun	+13.1	Jun	+27.4	Q1	230.1	Jun
Thailand	+ 6.5	Q1	+ 6.8	May	+ 3.0	Jun	+ 2.6	Jun	+ 7.4	May	41.8	May
Argentina	+10.7	Q1	+ 9.5	Jun	+ 4.9	Jun	+14.2	May	+ 6.1	Q1	17.4	Jun
Brazil	+ 2.7	Q1	+ 7.8	May	+ 6.6	Jun	+29.5	Jun	+ 7.9	Jun	50.5	May
Chile	+ 4.8	Q1	+ 4.5	May	+ 1.1	Jun	+ 6.2	Jun	– 0.1	Q1	15.9	Jun
Colombia	+ 3.8	Q1	+ 3.5	May	+ 6.1	Jun	+ 0.2	Apr	– 1.6	Q1	11.6	Jun
Mexico	+ 3.7	Q1	+ 2.1	May	+ 4.4	Jun	– 5.5	Jun	– 9.1	Q1	60.3	May
Peru	+ 4.2	May	+ 6.5	May	+ 4.3	Jun	+ 1.5	May	– 0.6	Q1	10.1	Jun
Venezuela	+29.8	Q1	+24.6	Apr	+22.3	Jun	+17.8	Q1	+12.3	Q1	18.9	May
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.7	Q1	+ 3.9	Q1	13.2	Mar
Israel	+ 2.6	Q1	+ 4.2	May	nil	Jun	– 5.6	Jun	+ 0.3	Q1	26.1	Jun
South Africa	+ 1.9	Q1	+ 3.0	May	+ 1.2	Jun	+ 1.1	May	– 2.0	Q1	9.8	Jun
Turkey	+10.1	Q1	+16.5	May	+ 8.9	Jun	–28.3	May	–11.3	May	33.2	May
Czech Republic	+ 3.1	Q1	+12.7	May	+ 2.9	Jun	– 2.5	May	– 6.0	Q1	26.5	Jun
Hungary	+ 4.2	Q1	+ 7.1	May	+ 7.5	Jun	– 4.2	Apr	– 7.1	Apr	12.6	Jun
Poland	+ 6.9	Q1	+15.7	Jun	+ 4.4	Jun	– 5.5	May	– 2.8	May	35.0	Jun
Russia	+ 7.4	Q1	+ 9.2	Jun	+10.2	Jun	+67.1	May	+38.4	Q2	81.5	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.8	Q1	+ 5.4	Jun	+ 4.5	Jun	– 2.3	May	– 1.1	Q1	1.4	May
Latvia	+ 8.8	Q1	+ 3.4	May	+ 6.1	Jun	– 2.4	May	– 1.4	May	1.5	May
Lithuania	+ 6.9	Q2	na		+ 1.1	Jun	– 2.9	Apr	– 1.5	Q1	3.4	May
Slovakia	+ 5.5	Q1	+ 8.0	May	+ 8.1	Jun	– 0.5	May	nil	Mar	13.1	May
Slovenia	+ 3.7	Q1	+12.0	May	+ 3.9	Jun	– 0.9	May‡	– 0.2	May	8.2	Apr
Pakistan	+ 5.1	2003†	+ 3.3	Mar	+ 8.5	Jun	– 3.2	Jun	+ 2.4	Q1	11.1	May
Saudi Arabia	+ 7.2	2003	na		+ 0.6	Apr	+61.2	2003	+29.7	2003	23.2	May

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jul 29th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 28th		Dec 31st 2003	
	Jul 28th	year ago	Jul 28th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.1	3.60	1,457.2	−4.1	− 7.1	− 7.1
Hong Kong	7.80	7.99	14.2	0.52	12,320.3	−0.6	− 2.0	− 2.5
India	46.3	46.1	84.3	4.49	5,070.3	+1.5	− 13.2	− 14.3
Indonesia	9,120	8,510	16,624	7.49	760.2	−0.1	+ 9.9	+ 1.5
Malaysia	3.80	3.80	6.93	2.87	838.6	−0.3	+ 5.6	+ 5.6
Philippines	56.0	54.7	102.1	7.56	1,583.4	+2.9	+ 9.8	+ 8.9
Singapore	1.73	1.76	3.15	0.94	1,875.3	+0.1	+ 6.3	+ 4.5
South Korea	1,168	1,180	2,128	3.90	744.4	−1.2	− 8.2	− 6.3
Taiwan	34.0	34.4	62.0	1.10	5,383.6	−0.5	− 8.6	− 8.7
Thailand	41.4	42.0	75.5	1.46	634.7	−3.2	− 17.8	− 21.4
Argentina	2.97	2.89	5.42	4.88	949.2	−3.3	− 11.5	− 12.6
Brazil	3.06	2.94	5.58	15.75	22,166.6	+1.6	− 0.3	− 6.0
Chile	643	705	1,173	1.80	7,829.6	+0.7	+ 6.7	− 1.7
Colombia	2,637	2,885	4,806	7.79	2,923.7	−3.3	+ 25.3	+ 32.1
Mexico	11.5	10.5	20.9	7.16	10,090.6	+1.0	+ 14.7	+ 12.3
Peru	3.42	3.47	6.24	2.50	2,767.7	−2.3	+ 13.7	+ 15.0
Venezuela	2,656§	1,598	4,842	14.81	25,523.0	+0.7	+ 14.9	+ 23.4
Egypt	6.20	6.14	11.31	11.24	15,700.5	−0.9	+ 34.9	+ 34.1
Israel	4.53	4.42	8.25	1.00	571.4	−3.3	+ 6.9	+ 3.8
South Africa	6.29	7.40	11.5	8.20	10,228.5	+1.0	− 1.5	+ 4.5
Turkey	1,485,500	1,426,500	2,707,769	25.24	19,018.6	+1.3	+ 2.1	− 3.4
Czech Republic	26.3	28.2	48.0	2.49	786.1	+0.7	+ 19.3	+ 16.4
Hungary	206	232	375	11.31	11,522.3	−1.0	+ 22.8	+ 23.9
Poland	3.66	3.84	6.68	6.45	23,584.3	−1.7	+ 13.3	+ 15.7
Russia	29.1	30.3	53.0	13.00	518.2‡	−10.0	− 9.1	− 8.7
EMF (MSCI)*	1.00	1.00	1.82	na	419.9	−1.9	− 5.2	− 5.2
EMBI+†	1.00	1.00	1.82	na	291.6	−0.6	− 1.1	− 1.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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